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Politics this week

Jan 10th 2002
From The Economist print edition

Jitters in Europe

Italy's foreign minister, Renato Ruggiero, resigned after several other senior ministers had made hostile remarks about the EU and the euro, and Silvio Berlusconi, the prime minister, failed to slap them down. Some European leaders feared Italy's government would turn Eurosceptical. No way, said Mr Berlusconi, who took on the foreign ministry himself. But it was clear Italy would defend its national interests more strongly.

See article: Will Italy really change its policy toward the European Union?

Goran Persson, Sweden's prime minister, said his country might hold a **referendum on the euro** next year. Polls suggest that Swedish public opinion, hitherto hostile, has recently swung in favour of joining the single currency.

Estonia's market-minded coalition government, led by Mart Laar, collapsed.

France's family doctors stayed on intermittent strike, amid increasing signs that the government would surrender to their pay demands.

In **Spain**, government-imposed reforms to the country's universities came formally into force, despite the protests of many academics and students.

See article: Spain's contested university reforms

Force for peace

A British-led, UN-mandated, international force designed to provide security in **Afghanistan**, was gradually building up to a strength of 4,000-5,000. Turkey and Bulgaria were the latest countries to promise soldiers. Meanwhile, America said that it intended to build a long-term Central Asian base in Kirgizstan.

American forces took prisoner 364 men said to be members of the **Taliban** or the al-Qaeda organisation and proposed to fly them to a camp in the American base at Guantanamo in Cuba, for questioning. Afghan tribal leaders protested at the deaths of civilians killed by American bombs, said to outnumber the 3,000 people who died in New York on September 11th.

In an effort to please India, President Pervez Musharraf of Pakistan dropped the term “freedom fighters” in a reference to attacks in Indian-held **Kashmir** and said he rejected all terrorism. But India continued to build up its forces on its border with Pakistan.

See article: Islam in Pakistan

The Pakistani authorities found 630kg (1,390lb) of **heroin** being carried by a camel caravan in the south-east of the country, one of the largest seizures of the drug.

Myanmar's military government freed five opposition members, including a

cousin of Aung San Suu Kyi, the opposition leader.

A peace-making team from Norway arrived in **Sri Lanka** at the start of a new effort to end the 18-year civil war between the separatist Tamil Tigers and the government.

See article: The wounded Tigers of Sri Lanka

Shrinking surplus

As estimates of America's long-term fiscal surplus shrank, Tom Daschle, the Democratic Senate majority leader, accused President George Bush of **mishandling the economy** by pushing through last year's $1.35 trillion tax cuts. Mr Bush promised that “not over my dead body” will the Democrats raise taxes.

See article: A battle over numbers

The Supreme Court reduced the scope of the **Americans with Disabilities Act** by ruling that an impairment must have a significant effect on a person's daily life in order to qualify as a disability under the law. The controversial ruling could make it harder for people with afflictions such as carpal-tunnel syndrome (repetitive-strain injury) to get special treatment from their employers.

The Bush administration said it may need to resume **underground nuclear testing** at some point to maintain the safety of its scaled-back nuclear-weapons arsenal. The option would form part of the “nuclear-posture review”, which outlines the country's justification for reducing the number of strategic warheads by two-thirds over the next ten years.

Going down

Argentina devalued the peso by 29% for most trade and capital transactions. For other purposes, the currency will float. Eduardo Duhalde's government converted most dollar loans to pesos, but has said dollar bank deposits will (eventually) be honoured. Critics feared that the banking system would collapse.

See article: Argentina's bankrupt economy

Chile's president, Ricardo Lagos, appointed as defence minister Michelle Bachelet, a member of his Socialist party and the daughter of an air-force general who died after being imprisoned and tortured during General Augusto Pinochet's dictatorship. She is the first woman defence minister in Latin America.

Colombia's three-year peace process came to a halt. President Andres Pastrana gave the FARC guerrillas 48 hours to leave their “demilitarised” zone, after they had refused to drop their opposition to military surveillance of the zone.

See article: A halt to Colombia's peace process

By hook or by crook

Zimbabwe's parliament was set to pass laws to prevent the presidential election, due on March 9th and 10th, from being free or fair, or being won by anyone other than Robert Mugabe. Making doubly sure, the army chief hinted that he would not recognise the opposition candidate, Morgan Tsvangirai, if he

won.

See article: Democracy, who needs it?

A senior aide to **Nigeria's** chief judge was found dead, apparently murdered. Bola Ige, the justice minister, was murdered last month.

The South African government promised to set up a commission of inquiry into the **collapse of the rand**. The country's currency lost 37% of its value last year. South African businessmen have accused speculators of foul play.

The government of **Burundi** promised to pull troops out of Congo in return for a Congolese promise to stop supporting rebels in Burundi.

After a three-week diminution in the violence between **Israel and the Palestinians**, Israel seized a ship allegedly carrying weapons to Palestinian militias, and two Hamas gunmen attacked an army base, killing four Israeli soldiers before they themselves died.

See article: Arms and the man

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Business this week

Jan 10th 2002
From The Economist print edition

Restarting computer sales

Compaq Computer, the world's second-largest PC maker, said that surprisingly strong fourth-quarter sales, particularly in Europe, would produce a modest profit rather than the expected loss. The turnaround might even improve the chances of Compaq's proposed merger with Hewlett-Packard.

SAP, Europe's leading software company, said that sales in the fourth quarter had exceeded analysts' expectations, topping *euro*1 billion ($885m).

America's Justice Department confirmed that it was pursuing a criminal investigation into events surrounding the bankruptcy of **Enron**, the erstwhile energy-trading giant. The company has close links with the Bush administration.

Season of no “goodwill”

AOL Time Warner is to write off as much as $60 billion in the first quarter thanks to new rules over accounting for “goodwill”. The write-off reflects some of the company's expensive dotcom acquisitions. It also forecast that advertising revenues would decline for at least the first half of the year, confirming the miserable outlook for all media companies.

AT&T is to take a provision of $1 billion in the latest quarter, mainly to pay for 10,000 job cuts. The telecoms giant has already laid off half this number and the rest will go in 2002. **Merrill Lynch**, an investment bank, also said it would take a charge of $2.2 billion in the quarter, the cost of 9,000 redundancies.

Accenture, the world's biggest management consultancy, reported that profits for its latest quarter were up by 11% over a year ago to $258m and that it had made its highest-ever quarterly revenues. Perhaps, at a tough time for many businesses, Accenture was able to provide valuable advice on downsizing.

EasyJet propelled

EasyJet showed the bullishness of Europe's low-cost airlines with plans to buy 75 new passenger jets worth some $4 billion. In an effort to secure a favourable deal, easyJet signalled that it would consider buying from Airbus Industrie rather than Boeing, the usual supplier to no-frills carriers.

Club Mediterranée, a French resort group, said it would report losses for 2001 of *euro*70m ($62m); the company blamed the effects of a sagging world economy, compounded by the events of September 11th. Others blamed a weak business plan.

DaimlerChrysler, **Mitsubishi** and **Hyundai** unveiled plans to develop and produce an engine to power a range of smaller cars. Significant cost savings are expected as adaptations of the power unit could come to propel more than 1m vehicles.

The **Detroit motor show** was dominated by gloom over expected job cuts at Ford, the world's second-biggest car maker. The Bush administration also announced a new push to encourage the development of fuel-cell-powered vehicles.

See article: Fuel cells and cars

Out of the picture

Patricia Russo, charged with reviving **Eastman Kodak's** fortunes in the digital age, left after less than nine months as chief operating officer and president and returned from whence she came, to Lucent Technologies. She will become chief executive of the struggling telecoms-equipment company.

Vizzavi, a European Internet portal that came rather late to the game, said its chief executive and 100 other staff would go. The joint venture between Vodafone and Vivendi Universal cost some *euro*1.6 billion ($1.4 billion) to set up but has attracted fewer subscribers than hoped for and has had trouble making money.

Investor indifference met **Vivendi Universal's** stockmarket offer of a 5% stake in the company. Shares fell below the opening price, leaving the two banks underwriting the deal stuck with big holdings.

Alcoa, the world's biggest aluminium firm, launched a bid for the 60% that it does not yet own of Norway's number two aluminium concern, **Elkem**, valuing the company at some $850m. Elkem described the offer as “very bad”. **Norsk Hydro**, Norway's leading aluminium maker, agreed to pay *euro*3.1 billion ($2.8 billion) to Germany's E.ON for its **VAW** aluminium unit, to make it the world's number three aluminium company.

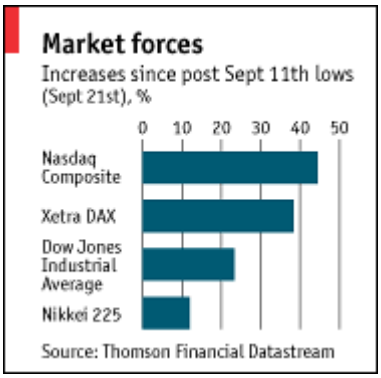
Fashion statement

Yves Saint Laurent said that he would hang up his hat. The ageing *haute couture* guru expressed disillusionment with today's more commercial fashion industry.

See article: Yves Saint Laurent retires

Stockmarkets around the world have continued their steady recovery since the post-September 11th lows, as investors hope for a swift end to America's recession. Both American and European markets have gained, though Japan is less perky.

See article: Is irrational exuberance in the air again?



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George Bush

George Bush: The difference a year makes

Jan 10th 2002
From The Economist print edition

January 2001: strong at home, weak abroad. January 2002: the opposite

Get article background

THE way of the warrior is not an easy one—if you have to win elections as well as wars. One of the defining experiences of George Bush's life must have been watching as his father, riding high in the opinion polls after his triumph over Saddam Hussein in 1991, gradually shed support at home, losing the 1992 election to Bill Clinton. Today's Mr Bush has made a good start as president and an excellent one as commander-in-chief. But he has an even longer time in which to watch his support erode: almost three whole years.

History is not supposed to repeat itself, particularly if, like Mr Bush, you learn from it. Yet a year into his presidency, he too enjoys approval ratings above 80%, he too is presiding over a troubled economy, he too is being bated about tax rises (“not over my dead body”, he said last weekend, a more macho, less grammatical version of his father's “Read my lips”)—and Democrats scent success in the mid-term elections in November.

Most of Mr Bush's supporters would respond by listing the ways in which he is different from his father. But first it is worth emphasising that any such comparison, far from being some sort of jibe, shows how far Mr Bush has come. A year ago, Mr Bush seemed even to this newspaper, which had supported him against Al Gore, “an accidental president”—the victor in a tainted election, the inheritor of a divided Congress. Others regarded him as a figure of fun, a naive dauphin who would have to be nannied by his father's councillors.

A year later—thanks in part to September 11th, but also to an increasingly assured performance before then—the world has got used to George Bush, just as it did to another western conservative governor once held in a mixture of suspicion and ridicule, Ronald Reagan. Worries about his election have faded away. His resolute leadership in the war against terrorism has so far been exemplary. It is still unclear how much America has really changed since September 11th (see article), but Mr Bush certainly has, at least in the eyes of those who once thought him gauche or inadequate.

So the president's high opinion-poll ratings are well earned. But increasingly he will be graded—both by America's voters and by the world outside—on the basis of longer-lasting achievements, on bills passed and wars concluded. Here the first year of his presidency had a lopsided feel.

In foreign policy, Mr Bush has got progressively better. He came to office pledging to tidy up the somewhat meandering diplomacy of Bill Clinton. But fairly soon, a desire for plain speaking drifted into a rather peremptory unilateralism. The Bush administration abruptly pulled out of a variety of international agreements (some for good reason); Mr Bush seemed unduly obsessed by building a missile-defence shield; and he shied away from getting involved with (admittedly intractable) problems, such as the Middle East.

With the agenda-focusing help of September 11th, Mr Bush's team seems now to have a clearer idea of America's interests and stance abroad. The war against terrorism has forced the president to learn the art of coalition-building. The United Nations, if not quite embraced, is no longer shunned. America has become more involved in the Middle East. And Mr Bush has talked about bringing American money and power to bear on the troubles from which terrorism springs.

Mr Bush's domestic performance has been more choppy. He ended last year with two legislative coups—an education bill, which he signed into law this week, and fast-track authority from the House to negotiate trade agreements (something Congress withheld from Bill Clinton). Both are certainly worth having, but they could have been even better. America's lousier schools will now be more accountable, but Mr Bush chickened out of promoting school vouchers. On trade, fast-track came at a cost: concessions to all sorts of protectionist special interests, notably textiles and steel.

However, Mr Bush's domestic scorecard remains dominated by the enormous tax cut he secured last March. Here there is, indeed, a clear difference from his father, who promised lower taxes, and then raised them. But that difference may be one that America comes to rue rather than celebrate. In retrospect, Bush senior's decision to right the government's finances helped ensure America's prosperity in the 1990s. The worry with Bush junior's tax cut is the reverse.

Committing yourself to give back $1.3 trillion over the next 11 years was risky, given the increasing demands on government from the retiring baby-boom generation. After three years of surplus, the government's finances will be in deficit for the rest of Mr Bush's first term, and the guesstimate for the longer-term surplus is melting away. Meanwhile, the Pentagon wants more money and both parties are fighting to twist a stimulus bill to their own political ends (see article).

As this implies, the Democrats are at least as guilty of lax accounting as the Republicans. But they are sticking to the same strategy that brought Mr Bush senior down: unreserved support for his efforts abroad, and unreserved blame for the “Bush recession” at home. Against them, Mr Bush is better placed than his father—more aware of the dangers, with far greater support from the right wing of his party and, above all, with more time for the economy to revive.

A three-year exercise plan

What can he do? Abroad, the formula is simple: more of the same. The impressive start to the war against terrorism needs to be seen through. America needs to display a sustained commitment to Afghanistan, and sound principles governing any actions elsewhere. The bold talk about fighting the causes of terrorism in the developing world needs cash to back it up.

At home, Mr Bush may feel more hemmed in: presidents rarely get much passed after the first 18 months. That should not stop him promoting experiments, such as school vouchers within the District of Columbia, nor preparing the ground for his bigger projects, particularly privatising Social Security. He can also stop bad ideas. A good place to start would be to veto whatever stimulus bill eventually makes it out of Congress.

Mr Bush's first year has brought unwelcome surprises and genuine accomplishments. Now the hard work-out begins.

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Pivotal Britain

The dashing Mr Blair

Jan 10th 2002
From The Economist print edition

Britain has lost an empire but has at last found Tony Blair

Reuters

RETURNING to the office after the new year is not a bundle of laughs. Nor were Britons cheered to find their commuter trains—filthy and overcrowded at the best of times—washed away by strikes. But even allowing for seasonal adjustments, Tony Blair must be wondering what he has done to earn the scorn dumped on him after his own return this week from a visit to India, Pakistan and, fleetingly, the Bagram airbase outside Kabul. Having won golden opinions for his deportment on the world stage since the terror attacks of September 11th, he now stands accused of burnishing his reputation abroad while his ministers fiddle and fail at home. Sensing the mood change, he has rushed out a semi-apologetic party-political broadcast saying that he never forgot “for a moment” why he was elected, “which was to put right our public services”.

Prime ministers should not have to apologise for taking an interest in foreign affairs. If anything, Mr Blair can take pride in his performance since September. He rallied at once to America's side, arguing rightly that the new kind of terror unleashed by Osama Bin Laden posed a threat to all nations. His sympathy won new friends for Britain in America. His advocacy promoted understanding around the world of America's response. Mr Blair told Muslims that Mr Bin Laden had hijacked Islam; he told Arabs that the plight of the Palestinians was no justification for terrorism; and he told Israelis that the Palestinians needed a viable independent state. The words have been matched by actions. Britain alone joined America in the opening strikes against al-Qaeda's Taliban protectors. Britain's special forces fought alongside their American counterparts. It was Britain which pushed for, and is now leading, the international security force assembling around Kabul. By winning the confidence of George Bush—hardly the natural ally of a Labour prime minister—Mr Blair may even, for a moment, have realised the longstanding British dream of becoming the indispensable bridge between America and Europe.

So Mr Blair has done the right things since September 11th. Has he drawn the wrong conclusions from them? Global dramas lure British prime ministers towards two traps. One is to over-estimate Britain's part in world affairs. The other is to exaggerate the place of world affairs in their own job.

Some of the things Mr Blair has been saying suggest that he is falling into the first trap. He made an admirable internationalism sound absurd by telling the Labour Party in October of his yearning to bring succour not only to the people of Britain but also to “the starving, the wretched, the dispossessed, the ignorant, those living in want and squalor from the deserts of Northern Africa to the slums of Gaza to the mountain ranges of Afghanistan”. This, alas, was no isolated oratorical fancy. It fits a pattern of speeches, including one last week in India, in which Mr Blair claims to have found the foreign-policy role Britain has been looking for since losing its empire. Britain, Mr Blair says, is not a superpower but a “pivotal” power, especially capable of acting as a force for good by virtue of its connections with many different regions of the world, the skill and reach of its armed forces, its large economy and its close and intersecting relations with America, the Commonwealth, NATO, the UN Security Council, the G8 and so forth.

This idea is certainly not original and probably not true. Churchill said in the late 1940s that Britain was “at the very point of the junction” between three “majestic circles” (the Commonwealth, the English-speaking world and a united Europe). Harold Macmillan said in the 1950s that Britain could become the world's “chief source of moral inspiration”, mediating between East and West and America and Europe. James Callaghan said in the 1970s that Britain's connections enabled it to make a contribution out of all

proportion to its size and power: “We are the bridge builders,” he asserted. Such claims have seldom stood up to scrutiny. Even after Mr Blair's diplomatic virtuosity, it will be a stretch for historians to conclude that a “pivotal” Britain tipped the course of events in Afghanistan. France and Germany were slower off the mark but still ended up on the superpower's side—as did NATO, the EU, the Security Council, Russia and the many Muslim governments that depend on the United States for support. The claims that Britain habitually makes for its special status serve mainly to irritate foreigners and so to reduce it.

Medium power, star quality

Mr Blair should stop talking about pivotal Britain. Still, being just one medium-sized power does not mean that Britain has no wider role in the world. If that were so, no country except America would be entitled to a foreign policy. Different powers have different strengths. And just at present Britain's are not only those enumerated by Mr Blair—modern armed forces and the like—but Mr Blair himself. For wherever you put Britain among the powers, many people around the world put its prime minister near the top of the list of global leaders. He has been around, he has star quality and he is available. Whereas Germany's Gerhard Schröder and France's Jacques Chirac face elections this year, Mr Blair is ensconced virtually unopposed in a second term. With India and Pakistan close to war, it would have been a folly for him and a humiliation for Britain to cancel a long-planned visit because of a rail strike at home.

All the same, Mr Blair needs to guard against the second trap that faces leaders with global ambitions. He must not let foreign policy divert him from the job for which he acknowledges he was elected, which is to modernise Britain's decrepit public services. This is not primarily a question of how he organises his time: there is no need, say, to cancel his forthcoming visit to Africa, which is in desperate need of the rich world's help and attention. Nor should he react to domestic discontent by trying to micro-manage departments that are already over-centralised. But in public-service reform the hard choices have to be made—and enforced—by the man at the top. In rising to the challenge of terrorism, Mr Blair gives the impression of having discovered a sphere of action that suits his taste for moral certainty and rapid results better than the awkward manoeuvres involved with railways and hospitals. Star quality must also be used at home, if it is to be preserved.

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Argentina's devaluation

From straitjacket to padded cell

Jan 10th 2002
From The Economist print edition

Eduardo Duhalde's plan carries new dangers

EPA

Get article background

AFTER a decade in which Argentina lived with a fixed exchange rate and an increasingly dollarised economy, a devaluation of the peso was always going to be traumatic. That was why it was put off for so long. The best that can be said for the emergency economic measures launched by Eduardo Duhalde, the new president, this week is that at least they begin the necessary move to a floating rate. But in other respects they are incoherent, and may delay recovery.

For the next few months Jorge Remes Lenicov, the economy minister, wants to peg the exchange rate for exports, “essential” imports and capital payments at 1.40 pesos to the dollar; for most other purposes there will be a market rate. Much of the cost of the devaluation will be borne by (mostly foreign-owned) banks and privatised utilities (whose charges, hitherto in dollars and indexed to American inflation, will rightly be switched to pesos). Most dollar loans are being converted to pesos, but Mr Duhalde has rashly promised that dollar bank deposits will (eventually) be honoured. And though there is talk of price controls, firms are barred from sacking workers.

All of this is aimed at curbing inflation and sweetening the bitter pill of devaluation for ordinary Argentines. The concern is understandable: the Argentines' anger at economic depression and political corruption had brought down two presidents in a fortnight before Mr Duhalde took over. The government is right to take seriously the threat to political stability.

Even so, many of the measures are misguided. They smack of Argentina's fatal attraction to technical fixes that postpone painful realities. Take the dual exchange rate. This distorts the allocation of resources and thus invites corruption; the peg merely stores up trouble. Better to float the peso, while giving monetary policy to the central bank. The second, even bigger, problem is the banks (see article). The mismatch in the treatment of deposits and loans at the heart of Mr Remes's plan spells the collapse of many banks. A windfall tax on oil exports will not be enough to recapitalise them, as intended.

Jose Maria Aznar, Spain's prime minister, pointedly called this week for Argentina to agree with the IMF on a “credible” new plan. He is right, even if both he and Felipe Gonzalez, a former prime minister, have been foolish to act as lobbyists for Spain's “national champions”, the banks and utilities that have reaped rich rewards from their investment of $40 billion in Argentina over the past decade.

The grim truth for Argentina is that things will get worse before they get better. Having defaulted on its $155 billion debt, the government faces messy talks with creditors. But a coherent economic plan could start to restore confidence, and tempt back the $20 billion or so that fled the country last year.

Since Argentina was once seen as a successful model for free-market policies in Latin America, the scale of its troubles has inevitably brought calls (some from Mr Duhalde himself) for the country, and the region, to turn their backs on such policies. In two respects, the reward from openness has indeed been disappointing. Capital flows have proved fickle, especially in recent years. And rich-world protectionism, especially for farm products, has robbed Latin America of some of the benefits of open trade. Nonetheless, the main cause of Argentina's troubles was homegrown: the combination of a fixed exchange rate, fiscal profligacy and mounting debt is not “neo-liberal”. It is simply bad policy—and all the

more reason to avoid a different set of bad policies now.

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Corporate malpractice

In praise of whistleblowers

Jan 10th 2002
From The Economist print edition

Whistleblowing is good for society, but bad for careers. It should be good for both

WHEN Philip Bowman was chief financial officer of Coles Myer, an Australian retailer, he exposed the fact that a vice-chairman had used a big chunk of the retailer's money to buy shares in a company that he, the vice-chairman, controlled. The case made headline news. Yet even after a two-year court battle to win compensation for wrongful dismissal, Mr Bowman was, in effect, ostracised from working in his home country. He says that companies that might have hired him worried about skeletons lurking in their own cupboards.

Yet Mr Bowman was lucky: he moved to Britain and subsequently became chief executive of Allied Domecq, the world's second-largest wines and spirits group. Sadly, few whistleblowers' stories end so happily. Many ruin their careers, and sometimes even their health. Because of society's aversion to people who are often seen more as snitches than as heroes, those who blow the whistle (and put up with the persecution and harassment that almost invariably follow) have to be abnormally persistent. They become obsessive about their cause and blind to other aspects of their life. Many end up pursuing personal vendettas as well as the wrongdoing that originally sparked their action.

Whistleblowers provide an invaluable public service. An employee who (to quote Black's Law Dictionary) “reports illegal or wrongful activities of his employer or fellow employees” can save his organisation millions, quite apart from carrying out his public duty. The American government claims that most of the billions of dollars that it retrieves from those who defraud federal agencies come via whistleblowers' reports. Many investigations carried out by antitrust authorities into illegal cartels, such as the recent vitamin price-fixing case in Europe, are initiated by reports from whistleblowers.

Despite a growing body of legislation to protect whistleblowers, their lot remains a miserable one. In the United States, many lawyers are reluctant to take up cases involving public-sector whistleblowers because their chances of winning are so slim. Those who pursue lawsuits for wrongful dismissal through the courts can find themselves enmeshed for years. And any damages eventually awarded are seldom a match for the damage actually suffered. It is no surprise that employees are reluctant to fulfil their public duty when they get such faint praise for doing so. Can anything be done to encourage whistleblowers?

Who's afraid of denouncing crooks?

Many hold back because they are afraid—afraid that they will lose their jobs, and maybe also their friends. Mr Bowman says: “So-called friends congratulated me privately, but would not lift a finger of support in public.” So the first essential is to provide a secure environment in which whistleblowers will feel safe discussing their suspicions. (Whistleblowers usually start off with little more than a vague sense that something fishy is going on.)

Employers themselves are reluctant to provide such an environment, although there are some notable exceptions (see article). Such an attitude is understandable; whistleblowers rarely bear good tidings for a company's share price. Yet in the long run they can save their employers far more than they cost, for instance by uncovering embezzlement. Even in cases such as price-fixing or cartels, where revelations by whistleblowers may unequivocally damage a company, it can be better to provide a forum that stops the practice without the glare of publicity that comes when trustbusters knock on doors at dawn.

This month, Britain's financial-services regulator is setting up a hotline for whistleblowers. Uniquely, British law sees a substantial role for regulatory bodies acting as an independent outside party that is at the same time discreet and knowledgeable about industry practices. In America, there is legislation in the pipeline designed to speed up the processing of whistleblowing cases. More legislation and more independent intermediaries are certainly welcome. But ultimately the answer is for employers, in both private and public sectors, to learn to appreciate the merits of whistleblowing, and to reward genuine whistleblowers with promotion rather than the sack. They might even then eliminate the malpractices that trouble their conscientious employees in the first place—and what a good thing that would be.

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Italy's foreign policy

Berlusconi strikes out

Jan 10th 2002
From The Economist print edition

The start of something serious? Or just a petty dispute?

AP

ITALY is a country that is good at losing prime ministers, indeed good at losing entire governments, but profoundly bad at losing lesser ministers. Prime ministers are turned out for trivial reasons, usually because someone else is impatient for a turn at the top. Lesser ministers, however, seem to hang on even when scandal, incompetence or policy disagreement suggests they should depart. So the sacking of Renato Ruggiero as the country's foreign minister represents something new (see article). And since the cause of his departure was a row about Europe, to which Italian governments of every stripe have been uncritically committed since the signing of the Treaty of Rome in 1957, it may be both new and interesting.

It would certainly be that if it were evidence of a change in Italy that heralded the formation and pursuit of a serious foreign policy. And it may. After all, a case could be made for Italy's uncritical affection for Europe in the first 30 years of the common market, which became the European Community and then the European Union. Italy's membership undoubtedly helped to transform the country from peasant backwardness into industrial dynamism, a transformation in which it overtook Britain in terms of income per person and could proudly take its seat at the G7 table of rich economies. And no doubt the EU still has plenty to offer Italy. But both the EU and Italy have changed, and no iron law dictates that what is good for Europe is always and inevitably good for Italy. So perhaps the time has now come for Italy to question some EU policies and to assert its national interest more forcefully. If that is what Mr Berlusconi is doing in getting rid of his Europhile foreign minister, it is no more than what French and British governments have often done, usually at the same time disrupting the harmony of the European club.

Thus Italy is fully entitled to save money, if it wishes, by refusing to join an expensive scheme for a joint military transport plane; or even to wrestle rudely with the Finns over the siting of an EU food agency. And Mr Berlusconi's ministers should be quite free to query the certainty that the euro is preordained to succeed, even if such doubts come oddly from a country that has supported the single currency from its inception. It is no cause for grief that the days when Europe's motor was driven sweetly by a Franco-German machine, tuned and tanked-up in Brussels, are over. Italy's burst of bloody-minded independence may be part of an untidier but also healthier new European order.

But if there are nagging doubts about the meaning of Mr Ruggiero's departure, it is because Italians have always had other motives too for their devotion to Europe. They welcomed membership of the European club because they mistrusted their own governments. Reckoning the succession of incumbents in Rome to be either corrupt or incompetent or both, they looked to Brussels to bring honesty and order, however relative. And Mr Ruggiero was, at least figuratively, the incarnation of Brussels. A former spokesman for the European Commission (and, among other things, a former head of the WTO), he brought international respectability to Mr Berlusconi's somewhat louche government. Now, bereft of Mr Ruggiero and uttering increasingly Europhobic noises, that government seems to be dragging its European anchor and perhaps drifting into unfriendly waters.

Time to come clean

Mr Berlusconi could perhaps reassure Italians, and other worriers, by elaborating in greater detail what

he really thinks about Italy and the EU. Indeed, many will wonder why he did not do this earlier, at the time he chose Mr Ruggiero: why appoint someone with whom he evidently disagreed so sharply, only to sack him seven months later? The trouble is that any full elaboration of his European policy risks either upsetting Italy's thoroughly Europhile voters, or reassuring them but at the same time revealing the dispute with Mr Ruggiero to be a petty row between an overweening prime minister and the man he dismissively described this week as “a technocrat”. And farther afield many will tremble lest he should threaten to put obstacles in the way of new members joining the EU.

For the time being, Italy remains an oddity: a country with an economy and a population to match those of Britain and France, if not quite of Germany, but packing about as much punch internationally as Portugal. That is not the fault of Italy's excellent diplomats; it is the fault of its politicians, who should be setting policy and then seeing that it can be carried out, but tend instead to play political games in Rome. If the sacking of Mr Ruggiero leads to the formulation of a considered new European policy, it may prove to be the forerunner of a more effective policy in foreign affairs generally. If not, it will be seen as yet another example of politics, Italian-style.

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Democracy in Africa

Stronger than you think

Jan 10th 2002
From The Economist print edition

Despite Robert Mugabe's rearguard action, Africa is slowly becoming more democratic

EPA

AFRICA is not famed for the strength of its democracy. But in most African countries—Zimbabwe is a horrible exception (see article)—the voters now have a bigger say in choosing their government than they did a decade ago. Gone are the days when Mobutu Sese Seko could bluntly declare that “Democracy is not for Africa.” Now that the cold war no longer impels America and Russia to prop up unrepentant despots, Africa's rulers like to be seen to be legitimate. Almost every sub-Saharan country has held elections of some kind in the past ten years. Apart from a few new states that have become independent only since 1990, such as Eritrea and (de facto) Somaliland, the only laggard has been the inaptly-named Democratic Republic of Congo.

Democracy requires more than mere ballots, of course. Few African elections are wholly free or fair. Incumbent parties and presidents are rarely rejected at the polls. Freedom House, an American pressure group, rates only six states on the African mainland as “free”: South Africa, Ghana, Botswana, Namibia, Benin and Mali. But the important question is whether democracy is gaining ground in Africa, or losing it.

The balance of recent evidence from Madagascar, Zambia and Zimbabwe is more cheerful than at first sight it looks. From Zimbabwe the news is dire. A presidential election is due in March, and the incumbent, Robert Mugabe, realising that he would lose a fair race, is doing his best to glue his rival's shoes to the starting blocks. This week parliament was set to pass measures allowing Mr Mugabe to have journalists jailed merely for criticising him, and opposition activists jailed merely for campaigning. In case this is not enough to keep him in power, Mr Mugabe is reportedly planning to offer his army a 100% pay increase. In real terms, this would be a pay freeze, but a better deal than other Zimbabwean workers can expect.

By comparison, Zambia, though far from perfect, is doing quite well. Twelve years ago it was a one-party state. Now it is a constitutional democracy. Last year ex-President Frederick Chiluba tried to change the constitution to allow himself to run for a third term. Happily, he failed. Unhappily, observers noted serious irregularities during the presidential and parliamentary elections last month. The victor was Mr Chiluba's protégé, Levy Mwanawasa, who shamelessly commandeered government helicopters, offices and telephones for his campaign. But, on the bright side, the ballot was relatively peaceful, and the ruling party lost control of parliament, which should place checks on Mr Mwanawasa's power.

Madagascar, meanwhile, is looking positively hopeful. A violent socialist regime gave way to multi-party democracy in 1993. The voters have sacked two presidents, and are poised to strike again. A presidential poll last month ended without a clear winner. In the run-off next month, the signs are that the opposition candidate, Marc Ravalomanana, will win. The vote was not flawless. Mr Ravalomanana claims he has already won an absolute majority. His supporters clashed with police in the capital this week, and a child was killed. This should not obscure the fact, however, that Madagascar's citizens have won—and kept—the power to choose their rulers.

The irrepressible press

These three countries offer a rough but fair snapshot of African democracy. The clear trend has been for authoritarian regimes to be replaced by messy, flawed democracies. That is progress. And it will be hard,

even for regimes as unscrupulous as Zimbabwe's, to reverse it. Mr Mugabe's atrocious behaviour is a sign of weakness, not strength. One reason for his weakness is that new, feisty newspapers have established themselves in Zimbabwe, as they have in most African countries over the past decade. From Abuja to Zanzibar, more lively, critical and often downright scurrilous newspapers are sold now than ever before. In Zimbabwe, despite having their reporters arrested and their printing-presses blown up, dissident papers far outsell the state-owned rags. Africa's broadcast media, however, remain largely state-controlled and servile. Since most poor rural Africans rely on the radio for information, this matters. The best boost for African democracy would be to deregulate the airwaves. Donors should insist.

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Letters

Jan 10th 2002
From The Economist print edition

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Regulating radio

SIR – Your piece on religious broadcasting in Britain ("Speak no evil", December 8th) illustrates the difficulties facing a regulator who is charged with implementing laws intended to produce a tolerant society. However, the legislation, which requires that in religious broadcasting the faith of others is not denigrated without the prospect of reply, is not (as you argue) a faulty model for the infinitely tricky task of avoiding incitement to religious hatred. On the contrary, it is a good model.

It has enabled the Radio Authority to pioneer religiously-owned radio services in Britain, requiring just a few clear and sensible rules to ensure that the exercise of one person's freedom does not cause harm to others. The rules are largely self-policed and the regulator gets involved only very rarely. This classic liberal approach must surely commend itself to *The Economist*.

However, when intervention is required, it can stir up passions, especially among those whose freedom to attack the faith of others has been restrained. The "yellow card" warning to Premier Radio is simply one of the ways in which commercial-radio regulation as a whole is given effect. In the past 12 months, we issued seven yellow cards, and imposed two more serious sanctions, including fines. Few, however, have generated the level of reaction that has happened as a result of the warning to Premier Radio.

Given that Premier Radio's licence is in the process of being readvertised (another statutory requirement), there have been those who seem to be worried that the yellow-card warning is in some way "a step towards banning [Premier] from the airwaves". It is not. The station acknowledged that the complaints had to be upheld and has since put in place its own compliance procedures to avoid any repetition, a step which the authority has welcomed and which we made clear had mitigated the regulatory action needed.

Tony Stoller
Chief executive, Radio Authority
London

Letter of the law

SIR – In response to Lexington's *ad hominem* attack on me for being an effective lawyer (December 15th), I would reply that any system of government that has to fear effective lawyers who operate under the rule of law is a system not worth preserving. As the Supreme Court once rightly observed, "no system worth preserving should have to fear that if an accused is permitted to consult with a lawyer, he will become aware of, and exercise [his constitutional] rights. If the exercise of constitutional rights will thwart the effectiveness of a system of law enforcement, then there is something very wrong with that system."

As for calling me "gruesome", it is shocking that a publication such as *The Economist* would let itself be used for an anonymous character assassination. Name calling reflects far worse on the name caller than on the victim.

Alan Dershowitz
Cambridge, Massachusetts

Europe's balance of power

SIR – In discussing Valéry Giscard d'Estaing's new job as the official visionary for the EU, Charlemagne (December 22nd) misses an important piece of his personal history. In the 1970s, Mr Giscard d'Estaing was one of the founding fathers of what has become known as the G8. He wanted to save international relations from a "bureaucratic invasion" by arranging small gatherings for heads of state and governments only. In his view, peace and prosperity were not possible without something akin to the 19th century European "concert of powers".

Assuming his worldview has not fundamentally altered, Mr Giscard d'Estaing's appointment is great news for Europe's "great" powers (France, Germany, Britain and, perhaps, Italy and Spain), the Council of Ministers in general and the European Council in particular. However, it is bad news for the agents of bureaucratic invasion at the European Commission (he bitterly opposed inviting its president to G7 summits). Lesser powers (Austria, Belgium, Finland and the rest) should make a special effort to please Mr Giscard d'Estaing—otherwise the doyen of great-power relations may simply forget they exist.

Risto Penttila
Helsinki

Celtic America

SIR – Brazil was not named after "red embers", brasas or the red brazilwood ("Consuming passions", December 8th). The name is of Celtic origin—the mythical land of Brazil has been mentioned in Irish legends going back some 3,000 years. It comes either from Bres, the son of Eriu, a mythical goddess who gave her name to Eire, or Bresal, a high king in Welsh and Cornish myths who made his home in the Otherworld "which is sometimes called Hy- or I-Breasal in his honour". The magic island of Hy-Brazil can be found on most European sea maps between 1351 and 1731, showing it as in the Atlantic Ocean. Hy-Brazil was definitely known to Columbus and Pedro Alvares Cabral, who discovered Brazil in 1500.

Daniel Unger
Atlanta

False economist

SIR – You refer to John Nash as a "top economist" ("Keynes the movie?", December 22nd). He is a top mathematician who dabbled in a branch of maths-cum-economics called game theory. Mathematicians, not economists, write about Reimannian manifolds, although current fashion in economics journals requires theorems, lemmas and proofs.

Mr Nash was not the first non-economist to win a Nobel prize in the discipline. Herbert Simon, a cognitive and computer scientist, and Gerald Debreu, a psychologist and mathematician, also both won. To my knowledge none of them has claimed to be an economist.

William Gibson
Vancouver

The state of Norway

SIR – You say of Norway's state sector: "That [to ensure Norwegian ownership] is why the Labour government this year used Den norske Bank to block a Finnish bid for a big Norwegian insurer" ("Slowly to market", December 15th). This is incorrect. The board of directors of DnB Holding takes no instructions from others. All actions have one purpose; to take care of the interests of DnB's shareholders.

Jannik Lindbaek
Chairman, Board of directors DnB Holding
Oslo

Editor's note DnB Holding is 47% government-owned.

Convergence criteria?

SIR – What thoughtful chaps they are at the European Central Bank. Knowing how difficult it is for us Brits to cope with both exchange rates and kilometres when we go to the continent, they have skilfully managed the decline of the euro to ensure that, as it finally replaces the franc, mark, drachma, etc, the pound-euro conversion (*euro*100=£62) matches the kilometre-mile conversion (100km=62 miles). One simple calculation now covers everything. Thanks Wim.

Simon Johnston
Belfast

America's wind power

SIR – You bemoan America's lack of alternatives to reliance on oil ("A dangerous addiction", December 15th) while in the same issue ("In the Great American Desert") pointing to the lack of economically viable pastimes for the dwindling number of inhabitants in the Great-Plains states. The two problems have a single solution. As you may recall, Oklahoma is "where the wind comes sweeping down the plain", and much the same is true of the territories to the north. According to estimates by America's National Renewable Energy Laboratory "a group of 12 states in the midsection of the country [has] enough wind energy potential to produce nearly four times the amount of electricity consumed by the nation in 1990."

While windmills cannot power cars directly, motor gasoline accounts for less than half of the consumption of petroleum products in America, so if wind reduces only non-vehicular use of petroleum it will still reduce reliance on petroleum products from the Middle East. Also, since the necessarily erratic nature of wind power necessitates the development of energy-storage technologies to guarantee continuous supply, wind power can also act as a spur to the development of a hydrogen economy in which cars no longer require petroleum fuel.

If the people in the Great Plains are going to be subsidised to do something, does it not make more sense to subsidise jobs in the construction and assembly of power plants and the generation of clean power rather than an unhelpful distortion in the world's agricultural markets?

Oliver Morton
London

SIR – You say of world oil supply that "Saudi Arabia's share is sure to rise in the coming years". And "As the world continues to deplete non-OPEC oil, [OPEC's] share will increase dramatically". This has been gospel for a quarter of a century, and it is false. In 1973, OPEC produced 31m barrels a day, and exported 29.5m. In 2001, they produced 30.4m barrels a day and exported 24.4m. OPEC's market share is now too low to support its control of the oil price. Hence OPEC now needs help from Mexico, Norway and Russia. But the more parties to the cartel agreement, the harder to define, police and enforce it.

Of course non-OPEC reserves are always being depleted—and always increased, by discovery and development in old and new areas. On balance, non-OPEC production has gone from 26.2m barrels a day in 1973 to 45.4m in 2001, and is set to keep rising. That is why OPEC is in such trouble now. Your policy prescriptions need no such assumptions—long disproved—about supply.

M.A. Adelman
Cambridge, Massachusetts

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The mood of America

What September 11th really wrought

Jan 10th 2002 | WASHINGTON, DC
From The Economist print edition

America is getting back to normal after September 11th, partisan bickering and all. But the attacks may change politics in ways its politicians have not yet grasped

IN ONE of the greatest political speeches, his second inaugural address, Abraham Lincoln argued that the civil war then raging was remaking American society despite the expectations and wishes of its leaders. “Neither party,” he said, “expected for the war the magnitude or duration which it has already attained. Each looked for an easier triumph, and a result less fundamental and astounding.”

Lincoln's equating of the difficulties of war with its consequences is telling. The civil war was momentous because it was traumatic. In contrast, the war against the Taliban has been “an easier triumph”. Will it bring about “a result less fundamental”?

The war in Afghanistan, of course, is only the beginning of the war against terror. No one knows how further attacks—by or against America—would affect the country. But already some changes are clear. September 11th ended what Charles Krauthammer, a columnist, mocked as a decade-long “holiday from history”, when headlines were dominated by O.J. Simpson, Monica Lewinsky and Gary Condit (and, lest Britons feel smug, by Princess Diana). The new seriousness has shocked people out of that sense of fantasy.

September 11th ended America's decade-long “holiday from history”

More important, September 11th changed the non-trivial features of the 1990s, too. Back then, business, technology and communications mattered, but politics did not. Local issues meant more than national ones. Bill Gates and Jack Welch ranked as heroes, but government officials, from the president down, were villains, or near it.

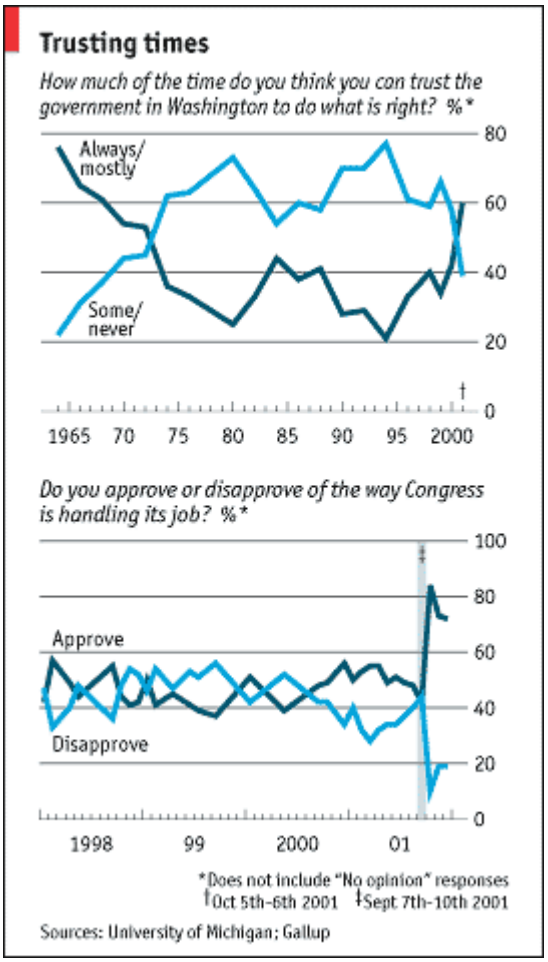
In different ways, all these features were predicated on peace and prosperity. The prosperity was eroding even before September 11th, with the bursting of the dotcom bubble. The peace ended that day. As a result, personal insecurity was added to the mix. At a time when almost every indicator of well-being shows a “damn-the-terrorists” self-confidence, one measure points the other way. An increasing number of people say they think the future for their children got worse after September 11th. Americans used to believe that their mainland, at least, was invulnerable to outside attack, and felt secure accordingly. They no longer do.

The implications are profound. Politics will now become more important again, since the more people feel insecure, the more they will turn to the government for defence. This is a point that goes back to Thomas Hobbes (because the life of man is “nasty, brutish and short”, people band together and create governments for self-protection). The most noticeable change to have occurred in America after September 11th is therefore not so surprising: a sharp rise in the level of public trust in the institutions

of government.

In the mid-1960s, two-thirds of Americans said they trusted the federal government to do the right thing most or all of time—the highest rate in the world. By the mid-1990s, that figure had fallen to 20%, the lowest in any democracy. On September 11th, the figure more or less doubled overnight (see chart).

The scale of the change has been, to use Lincoln's term, astounding. The new trustfulness is felt on all sides, by Republicans and Democrats alike. Good opinions of the president, Congress, previously unknown cabinet officials and almost every institution of government have soared. Except in the case of the president himself, the rise in approval has been much larger than on any recent comparable occasion. “We're still too close to it, probably, to understand it all,” the vice-president, Dick Cheney, told the *Washington Post* in late October. Still, he concluded, “it has altered the way the American people think about their government, and the role we have in society and overseas.”



The persistence of trustfulness

The question is whether this level of trust will be sustained. If it were, it would affect America profoundly. In “The Confidence Gap” (1987), Bill Schneider and Seymour Martin Lipset argued that declining trust in government was the driving force of American politics in the 1970s and 1980s. It made Ronald Reagan's presidency possible, and Mr Schneider has argued since that it encouraged others, notably Newt Gingrich, to give history a shove in the right direction by pruning back the functions of the state still further. If this nation-defining trend were reversed, it would presumably make possible a new round of government activism, comparable to one that took place during the cold war.

In the immediate aftermath of September 11th, such an interpretation seemed plausible. President George Bush won a large increase in federal spending to rebuild New York, compensate the families of victims and bail out airlines. He set up a new office of homeland security, the first such executive expansion for a decade, and agreed that the federal government should assume responsibility for airport security. John Ashcroft, the attorney-general, obtained expanded powers to monitor and detain terrorist suspects. The anthrax attacks ensured that the public health system would play a larger role against bioterrorism.

Yet, four months later, politics as normal is back. The parties are bickering about tax cuts (see article). Both sides are preparing to fight the 2002 elections on the economy, health care and education, issues that have dominated the agenda for years. Neither side expects the war to dampen partisan feelings. It is as if the attacks and the change in public sentiments never happened. Why?

Four months after the attacks, politics as normal is back. Why?

For one thing, as Mr Schneider points out, opinion polls held at moments of crisis should always be taken with a pinch of salt. Respondents interpret questions about trust in government as “Who do you support, your representatives or Osama bin Laden?” (Mr Bush's personal approval rating is boosted by the same phenomenon.) Moreover, the fact that the big rise in trust took place right after September 11th—before the successes in Afghanistan—shows that it was driven not by popular acclaim for policies, but by a threatened nation rallying round the flag. As long as the sense of crisis remains, so will the level of trust. But, all things being equal, the two things are likely to fall in tandem. Already, the immediacy of the

crisis is ebbing.

There is also evidence in the polls of public ambivalence towards government. When the Gallup organisation asked people whether they thought the government solved more problems than it created, it found the highest-ever proportion of respondents saying yes. But that was still only 42%, slightly smaller than the share which thinks the government creates more problems than it solves. When they asked people to rate the honesty of various professions, only a quarter gave members of Congress high marks, barely more than in 2000 (and far below the 90% rating for firemen and 84% for nurses in 2001). Even now, a narrow majority of Americans say they want a smaller government, providing fewer services. So, despite increased support for government at a general level, concerns about specific inefficiency or intrusiveness remain strong.

When all is said, the default setting for American politics is turned to “distrust”, and only the biggest upheavals—civil war, depression, world war—can alter it profoundly. In his recent book, “The Strange Death of American Liberalism” (Yale, 2001), H.W. Brands argues that the expansion in the powers of government after the second world war was a historical anomaly. In the 1950s and 1960s, Americans defined themselves in opposition to the Soviet Union and its allies, and the occasional embarrassments of the comparison (America's treatment of blacks at home, for instance) drove politicians to enact the civil-rights legislation which expanded the federal government in the 1960s. When the ideological period of confrontation ceased and was replaced, with the start of détente, by traditional balance-of-power diplomacy, American politics began to revert to its distrustful mean, and the long slide in support for government began—exacerbated by defeat in Vietnam, Watergate and all the rest.

The war against terror, of course, is also a struggle of ideas rather than a territorial conflict. But this has never meant that it will have the same government-expanding effect as the cold war because, in one respect, it is quite different. Americans do not define themselves in contrast to terrorism in the same way as they did in opposition to communism. Mr bin Laden's ideas seem too medieval and outlandish for direct comparison. Hence America's “asymmetric” conflict with small groups of terrorists is unlikely to have the same nation-defining quality as did the decades-long conflict between democratic and communist systems. The current high level of trust, therefore, is unlikely to be sustained. That, at least, is the politicians' view.

So far, all the examples of increased government activity have been in the area of national security itself or in sub-sectors of it (the airlines, for example). There is little evidence that the impetus to expand government is being carried beyond this. It is true that some mooted privatisations, of the Postal Service and of water-treatment plants around New Orleans, have been postponed. But these examples are few and far between, and would perhaps have happened anyway. It is also possible that, as recession takes its toll on local tax revenues, cities and states will be looking to save money over the next few years. If so, that would increase the pressure to privatise and shrink the role of the state.

Unchanging ways

Some Democrats had hoped that increased trust in government would translate into increased support for new entitlement programmes. The opposite seems to have happened. The “patients' bill of rights” (limiting the immunity of health maintenance organisations from being sued) had been high on the Democrats' agenda for this session of Congress. It is now dead. Debate may yet resume on a proposal to make prescription drugs available to old people through the government-funded Medicare system. But don't hold your breath: the proposal is costly, and federal dollars are more likely to go on defence. Gun sales have risen slightly, too, and new gun-control measures look unlikely. Paradoxically, then, one of the first effects of an attack that increased trust in government has been to destroy the most imminent proposals for increasing government's scope.

More broadly, if you compare domestic politics, the economy and foreign policy now with what they were like on September 10th, the striking thing is how little has changed, not how much. At home, politicians are reverting to partisan type, which could be significant: few things will do more to reduce trust in government than a year's worth of bickering.

On the economy, the terrorist attacks have not had the impact that was first feared. They did not cause the slowdown, of course (which had begun months before), nor did the response to them single-handedly destroy the federal budget surplus, which started to shrink in the summer. And although they may have deepened both, they do not seem likely to prolong the recession further

The terrorist attacks have not had the impact on the economy that

than it would run anyway, at least if recent indicators are to be believed (the budget deficit is another matter).

On foreign policy, initial expectations of change have also been dashed. Europeans and many Democrats had hoped the war in Afghanistan would turn the Bush administration towards greater multilateralism. That has not happened. Although Colin Powell, the secretary of state, cobbled together an impressive anti-terrorist alliance, in Afghanistan itself the allied contribution was confined to providing air bases, overflight rights and British and Australian special forces. The war was conducted from day to day by Americans and Afghans, not by the wider coalition.

Subsequently, America has not engaged in the nation-building operations in Afghanistan, though it will provide the lion's share of money for rebuilding. And the administration has made good on its promise, made before September 11th, to withdraw from two arms-control treaties, abrogating the anti-ballistic missile (ABM) treaty and killing off the protocol to enforce the biological weapons convention.

This does not mean the administration has become hawkishly more unilateralist (remember that it has also been drawn back into diplomatic attempts to resolve disputes between the Palestinians and Israel and between India and Pakistan). Rather, the president and his men seem to be taking the high level of public support they now enjoy as a mandate for continuing with the foreign policy they had embarked upon anyway.

Shifts in the subsoil

In short, if you look at the immediate impact on America's current agenda, it seems modest. There is little support for a significant expansion in the scope of government (though, of course, plenty of argument over reordering priorities between, say, defence and social programmes). There are few signs that politicians think anything new is afoot. And the continuities of domestic, economic and foreign affairs seem more striking than the disruptions. So is the rising trust in government much ado about nothing?

Not quite. As Lincoln implied, wars change countries in ways that politicians do not necessarily expect or understand. They can set in motion events beyond anyone's control, for example raising expectations of government which demand to be met, or cause trouble if denied. Their impact is inherently unpredictable.

So it is worth asking whether American politicians may be misreading the signs of change. After all, less traumatic events than September 11th have changed the course of politics. The Oklahoma City bombing, for example, weakened Mr Gingrich's anti-government revolution by showing federal employees as objects of sympathy. Has September 11th affected the subsoil of politics in such a way as to support bigger changes in future?

The answer is yes—or, at least, there are candidates for such changes. First, the attack seems to have altered the balance in America between security and civil liberties. Americans have acquiesced in Mr Ashcroft's plans to boost the surveillance powers of law-enforcement officials and to make counter-terrorism the focus of the Justice Department. This is potentially a far-reaching change, confirming Alexander Hamilton's view that “to be more safe, [people] at length become willing to run the risk of being less free.”

Second, the extremes of the political spectrum are likely to become less influential within the parties. The terrorist attacks cast a cloud of suspicion over all forms of religious certainty, and the fumbled response of the religious right has led many to disengage from politics altogether. On the left, the outpouring of patriotism, and the renewed focus on what holds Americans together, is likely to erode the influence of those who see the country largely as a coalition of ethnic subgroups and hyphenated-Americans. By eroding the influence of the two extremes—the most viscerally pro- and anti-government groups—September 11th may make incremental political change easier.

Third, the attacks may have the effect of explaining to Americans why they need to engage with the rest of the world on a sustained basis. So far, foreign policy has hardly changed, and the doctrine of seeking national security through military might understandably prevails. Yet the attacks on New York and Washington also showed that not even the world's largest defence budget can buy insulation from the world's demons any more. That, too, could have profound significance.

In short, this is a moment when American politics and the country's place in the world could be recast.

The political class does not see it that way, and the eventual outcome will depend partly on the president. Franklin Roosevelt used the Depression to change Americans' relationship to their government. Harry Truman used the second world war to change their relationship with the rest of the world. It is not yet clear whether George Bush will be able to use the terrorist attacks to shape a comparable historic shift. But it is possible.

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Politics and the economy

Tom v George

Jan 10th 2002 | WASHINGTON, DC
From The Economist print edition

AP

The budget will be the battleground for this year's mid-term elections. The Republicans have the upper hand, but neither side deserves to win

Get article background

IT DID not take long for election-year skittishness to set in. Democrats and Republicans fired the opening salvos of this year's budget battle even before the holiday decorations were taken down.

On January 4th, Tom Daschle, Senate majority leader and Democrat-in-chief, lamented “the most dramatic fiscal deterioration in our nation's history” and argued that George Bush's tax cuts had “probably made the recession worse”. With breathtaking inconsistency, he then offered his own roster of tax cuts and spending plans.

The next day, Mr Bush defended his tax record before Latino entrepreneurs in California. He argued for more tax cuts as part of an “economic security plan” (a new military wrapping for his failed stimulus plan). And he went on the attack: anyone who suggested putting off his tax cuts was trying to raise taxes. And “not over my dead body will they raise your taxes.”

The politics are simple. The weak economy is Mr Bush's Achilles heel and the Democrats best hope for the mid-term elections. They need to convince Americans that this is a Bush recession, caused—or at least worsened—by last year's tax cuts; and that those cuts make popular initiatives, such as prescription-drug benefits, unaffordable. Republicans, by contast, want to deflect the blame on to their obstructionionist opponents, for preventing the passage of a stimulus package to ease Americans' pain from recession and for advocating higher taxes.

It is hard to argue that Mr Bush's tax cut caused the recession. The investment bust that precipitated it began long before his tax cut became law, while September 11th took its toll on a weakened economy. But the combination of the tax cut and a weak economy has brought about a remarkable turnaround in America's fiscal prospects.

Only a year ago the Congressional Budget Office was projecting a cumulative budget surplus for 2001-11 of $5.6 trillion. The informal consensus now is barely a third of that figure. Republicans from the Senate budget committee recently gave a cumulative surplus of $1.86 trillion, while Democrats from the House budget committee estimated $1.79 trillion. And that excludes plans to spend more on farmers, the Pentagon and homeland security that are all likely to become law.

Add in such “likely further action”, and the Democrats' analysis suggests a ten-year surplus of below $1 trillion. Their calculations imply that the overall budget will be in deficit until 2005. Exclude the Social Security surplus (which, until September 11th, both parties had pledged not to touch) and the budget will be in deficit until 2012. And none of these numbers include the costs of any stimulus bill.

That does not mean America is suddenly in a fiscal mess. As a share of the economy, the probable deficits are small, well below 1% of GDP. In the 1980s, remember, the country ran an average annual budget deficit of 3.9% of GDP. More debatable is whether the fiscal deterioration alone has hurt the economy. Mr Daschle suggested that it had, arguing that by destroying future surpluses, the tax cut had kept long-term interest rates high, which in turn worsened the recession.

Long-term interest rates have not followed the precipitous decline of short-term rates. But it is hard to say how much of that divergence is due to investors' concerns about fiscal worsening rather than, say, their perceptions that a robust recovery will push up short-term interest rates soon. Peter Orszag, an economist at the Brookings Institution and a former Clinton administration official, reckons that several economic models, including one used by the Federal Reserve, suggest that ten-year bond rates might be more than a full percentage point lower without the Bush tax cut. But many other economists disagree, pointing to the lack of concrete econometric evidence linking budget deficits and interest rates.

But the worsening fiscal outlook over the next decade is poorly timed: it comes just before a big rise in claims on the government by the ageing baby-boom generation. The vanishing surplus limits the room for sensible entitlement reform (note how Mr Bush has gone so quiet on Social Security reform). And, given the spectre of higher defence spending as well as the prospect of expensive new social initiatives, such as prescription-drug benefits, the fiscal numbers may well get much worse.

So Mr Daschle is right to be concerned about fiscal discipline. Would that he lived up to his own standards. One honest corollary of his analysis is that parts of the Bush tax cut that have not yet taken effect may need to be rescinded. The tax cuts already implemented—such as the first instalment of the cuts in marginal income tax rates—account for about half of the long-term cost of last year's tax bill. Honest fiscal disciplinarians argue that the rest should be reconsidered. Those who created the cut “should take responsibility for repairing the damage”, Bill Clinton's treasury secretary, Robert Rubin, said last week.

Another honest corollary is that spending should be held down. But Mr Daschle has done nothing to stop pork-laden spending, such as the farm bill, and offered his own menu of tax cuts and spending.

Politically, his nervousness is understandable. Twelve Democratic senators voted in favour of Mr Bush's tax cut, and they are furious at Mr Daschle's claim it made the recession worse. Arguing against the monstrous farm bill would be hard for a senator from South Dakota. And with the economy still sluggish, Mr Daschle could not risk staying silent about fiscal stimulus. Since it was he who (correctly) killed the stimulus bill pushed by Mr Bush and passed by the House of Representatives before Christmas, the danger was too high that Democrats would be blamed if the economy remains weak.

All understandable—but hopelessly inconsistent. Robert Reischauer, head of the Urban Institute, calls the Democrat position “logically indefensible”. Mr Bush, by contrast, has stuck to the idea that tax cuts are good. The White House is gearing up, yet again, to push for an acceleration of its income tax cuts as well as corporate tax cuts, this time in the guise of an “economic security” plan. At the same time it is raising the rhetorical stakes by branding Democrats as tax-hikers. The strategy is for the tax cuts to placate the conservative base, whilst the attacks on the Democrats give Mr Bush an insurance policy if the economy falters.

The best result would be gridlock. Neither side's proposed tax measures are good vehicles to stimulate the economy and by the time they are passed the recovery will probably be well under way. The risk, however, is that election-year nerves will lead to both tax cuts and big increases in spending. The budget outlook would then become even worse.

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Chicanery in Chicago

Moniker business

Jan 10th 2002 | CHICAGO
From The Economist print edition

Would the real Jesse L. Jackson please stand up?

AP

CONGRESSMAN Jesse L. Jackson Jr may have a particularly troublesome opponent in the Illinois Democratic primary on March 19th: Jesse L. Jackson. Congressman Jackson, the son of the presidential candidate, is the most recent victim of that classic election wheeze, the “ringer name”. The concept is simple enough: recruit a candidate with the same name as a popular incumbent so that confused voters will split their votes and give a third candidate a better shot at winning.

So who is this “new” Jesse L. Jackson? He is a 68-year-old man who lives in a Chicago suburb, with no political experience. No matter; he has collected enough signatures to appear on the ballot in March. Who, then, has urged this Jesse L. Jackson to run for Congress?

The prime suspects are two brothers, William and Bob Shaw, who between them hold three elected offices. They also run a political organisation on Chicago's South Side and have been arch-rivals of Congressman Jackson ever since he beat their chosen candidate in 1996. Their objective, reckons Paul Green, a political scientist at Roosevelt University, is not to unseat Congressman Jackson, but to restrict the amount of time and money he can devote to other campaigns. The Shaws support a third candidate in the primary, Yvonne Christian-Williams. They accuse Congressman Jackson of playing the name game himself by getting a fourth candidate on to the ballot whose last name is—you've guessed it—Williams.

Congressman Jackson's campaign officials insist that the fraudster, whoever he is, should be punished. But running a ringer is not illegal. It is more likely that Jesse L. Jackson, the challenger, may be taken off the ballot if it can be proved, as a birth certificate proffered by Congressman Jackson suggests, that the middle initial “L” is a recent and tactical addition. In 1998 a Chicago woman running for the city council changed her name to Carol Moseley-Braun, a name shared by an Illinois senator at the time, and was struck from the ballot when election officials ruled that the name-change was intended to befuddle voters.

Congressman Jackson should still win easily. But the kerfuffle may prompt him to ponder how well he has spent his time in Congress. Was he wise to devote his energies to drawing national attention, rather than to building an organisation in Illinois that might have routed the likes of the Shaw brothers?

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America's railways

Fender bender

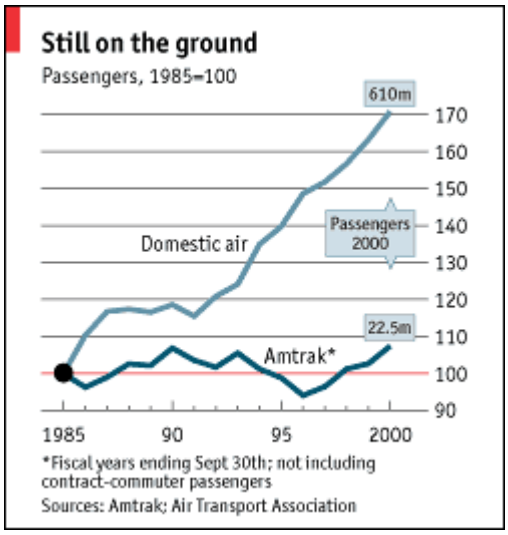
Jan 10th 2002 | NEW YORK
From The Economist print edition

Amtrak may finally be restructured. That does not guarantee a good service

AMTRAK'S enemies have wanted to rip apart America's loss-making national railway company for years. Now may be the time to do so. A report recommending Amtrak's break-up will be before Congress in February. Norman Mineta, the transport secretary, will shortly produce his own ideas for the railways. Most promising are the noises filtering out of Amtrak itself, which has hitherto resisted the idea of its own dismemberment.

The report, from the Amtrak Reform Council, formally ends a five-year period of probation for Amtrak. In 1997, as Congress debated withdrawing the company's annual subsidy, Amtrak cut a deal. In return for a $2.2 billion one-off payment to modernise track and trains, the company promised to achieve "operational self-sufficiency" (ie, to stop losing quite so much money) by the end of 2002, pinning its hopes on new high-speed services on the east coast. Congress set up the Amtrak Reform Council to keep an eye on progress.

By last November, the council had seen enough. Amtrak has been running out of money, and it has had little success in luring passengers back from the airlines (see chart). The council began drawing up plans for restructuring the company. There are two main ones.



The first has to do with Amtrak's role in rail policy. The company was created to run a national network of routes. Assorted government agencies take an interest in Amtrak, but none of them coordinates anything that could be called a national rail policy. That is largely left to Amtrak itself, which uses money from its profitable routes, mainly in the north-east, to subsidise the unprofitable ones elsewhere that give it a national reach. At the same time, despite losses of more than $25 billion over its 31-year history, Amtrak is still expected to make money.

The reform council wants to return the public-policy-setting bit of Amtrak to government. That would leave it free to concentrate on making money and also free it, with luck, from the relentless political lobbying that gives it a bad name. (Amtrak has long been accused of stopping trains in stations in districts of friendly congressmen, and it has plenty of union support too.)

The second burden that the council wants to lift from Amtrak is the weight of infrastructure ownership. In most of the country, Amtrak trains run on track belonging to America's privately-owned freight companies. Amtrak does, however, own almost all the track between Washington, DC, and Boston. Maintaining these ageing rails, tunnels and stations costs aound $300m a year, the council guesses (Amtrak does not know, or will not say). Some parts of the network—such as the tunnels into Penn Station in New York—are in dire need of repair. Putting things right could cost $20 billion—not a sum that Congress is likely to give Amtrak.

So the council proposes that the infrastructure in the north-east corridor should be hived off to a new government-owned company. In theory, it could rent out the lines to the operators, make better use of its assets and generally be more focused than Amtrak. The council discounts the comparison with Railtrack, Britain's "focused" rail-infrastructure company, which underwent a series of disasters, because its version would not be privatised.

These two changes would reduce Amtrak to a mere train-operating company—perhaps one of many if some council members get their way. But, publicly at least, the company seems unperturbed. “Mostly, they have ignored us,” says Nancy Connery, a council member.

If anything, it is the council which has found itself under attack. It had to rush through its November verdict on Amtrak's financial health, because Amtrak's friends in Congress were working to revoke the council's right to issue the finding. Since then, Joe Biden, an Amtrak ally in the Senate, has managed to relieve the company of its obligation to draw up plans for its liquidation, which, under the 1997 law, it was supposed to do once the council had found against it.

The pressure on Amtrak to accept some restructuring, though, is enormous. The company had pinned its hopes on increased profits from its new high-speed services, particularly the Washington-New York-Boston Acela Express. The service started a year late. The trains are certainly better, but thanks to congestion and that crumbling infrastructure, they run at their advertised 150mph top speed for just 18 miles of the full 452-mile route.

As it fended off the reform council last year, Amtrak threw its weight behind a bill that would have allowed it to raise $12 billion for high-speed rail projects. That foundered, at least in part, because no one trusts Amtrak to do the job. Amtrak has taken to selling and leasing back assets, as well as mortgaging properties like Penn Station, to raise working capital. “It's burning the furniture to keep yourself warm,” says Mrs Connery.

George Warrington, Amtrak's chief executive, has begun publicly pondering questions about Amtrak's proper role, a startling departure from the usual obfuscation. “They have softened a little to the idea of splitting off the infrastructure,” says Jim Coston, a Chicago lawyer who is closer to Amtrak than most of the other members of the reform council.

In the end, the case for restructuring should win, if only because it is hard to see how it could be much worse than Amtrak. But similar railways around the world, however they are structured, are struggling. Some passenger railways make money from high-speed track linking big cities. But there is unlikely to be a pot of gold in transporting people from Salt Lake City to Albuquerque, even if you reduce the time from Amtrak's current 61 hours.

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Justice in New York

Finding 12 good men and true

Jan 10th 2002 | NEW YORK
From The Economist print edition

An emotive murder case is back to haunt New York, together with a difficult question: how do you select "unbiased" juries for controversial trials?

IN Max Frankel's autobiography covering his years editing the *New York Times*, he berates himself for one particular failure: underplaying the 1991 riots in Crown Heights, Brooklyn, which started with the accidental death of a black boy and ended with the killing of a young Australian rabbinical student by a black mob. At first many of the city's leaders seemed ready to gloss over the incident, or to confuse the "venting of anger" with murder.

On January 7th, a federal appeal court, despite what it said was "overwhelming evidence", overturned the conviction of the alleged murderer as well as that of the alleged main rabble rouser. The cause of the reversal: an honest effort by the trial court judge to assemble a racially balanced jury to "render a verdict that has moral integrity". The Second Circuit Court of Appeals ruled this was inherently biased. Prosecutors may still retry the case, but old wounds have been opened up.

The mayhem 11 years ago began on a hot August evening when a car, driven by a Jewish man, ran a red light and struck two black children, one of whom later died. Incited by Charles Price, who was caught on tape saying "let's get the Jews", a mob attacked a predominantly Jewish section of Crown Heights, where Yankel Rosenbaum was stabbed. Lemrick Nelson, a 16-year-old boy, was seen running from the scene. He was identified as the assailant by Mr Rosenbaum, whose blood was found on Mr Nelson's knife. He also confessed to his girlfriend and a policeman.

Notwithstanding this evidence, a jury of six blacks, four Latinos and two whites found Mr Nelson innocent and then collectively held a celebration. Mr Nelson and Mr Price were subsequently tried again in a federal court for violating Mr Rosenbaum's civil rights, also in Brooklyn, and they were unanimously found guilty.

The judge in the second trial, David Trager, faulted the first jury for not "representing the community", comparing it to the mainly white jury that originally acquitted the officers who beat Rodney King. In an effort to assemble his "moral pool" of jurors, two members of the jury were swapped to allow the inclusion of one person who was black and another who was Jewish. Both changes were explicitly agreed to by the defendants and their lawyers. The final total was two Jews, three blacks, three whites and four Latinos.

The two appeals-court judges who overturned that verdict this week accepted that Mr Trager's procedures "were meant to be tolerant and inclusive rather than bigoted and exclusionary". But that fact, ruled Judge Guido Calabresi for the majority, "cannot justify the district court's race-conscious actions". The dissenting appeals judge wanted the court to condemn Judge Trager's selection process, whilst upholding the verdict on the evidence available.

The 109-page majority decision is a remarkable piece of writing by Judge Calabresi, a former dean of Yale Law School. He manages to work in a reference to his own prior writing (along with Aristotle's) on metaphysics, and various treaties on race, religion, language and the Constitution. Unsurprisingly, he has created a storm of protest, with New York's tabloids wondering, once again, whether legal theory and common sense ever meet.

One hard question underlies the contortions of both Messrs Trager and Calabresi: how to produce a fair jury in a country as racially charged as America. Leave it to random chance and demographics, and the result might be the first Rodney King verdict or the first Crown Heights one. Try to balance the races, and, no matter how honest your intent, the verdict will be inherently biased.

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Elk ranching

A chronic waste

Jan 10th 2002 | CORVALLIS, MONTANA
From The Economist print edition

A shooting trade tangles with a nasty disease and queasy voters

AP

If anybody mentions velvet, run like hell

AT THE Big Velvet Elk Ranch near Darby, Montana, you are confronted by a cryptic sign: “Do not ask about free elk. We have 762 names on our list. Celebrate dishonesty in Montana.” The ranch's owner, Len Wallace, invited people to come and kill his 800-strong herd of domestic elk for free—partly in disgust at a law forbidding him from charging hunters to do so. Things are perhaps even stranger in Colorado, which now has a small population of neon-orange elk. They have been spray-painted because they may have chronic wasting disease (CWD), an elkish cousin of mad-cow disease.

Elk ranching is a slightly odd industry. A small market exists for their meat, but elk have two more profitable uses. The first is as prey: hunters looking for a quick trophy pay to kill “shooter bulls” in fenced-off ranches. And the “velvet” side of the business sells off young antlers “harvested” when they are still soft and full of blood. The tissue is prized in Asia, both as a general tonic and as an aphrodisiac.

Now both branches of elk ranching are under attack—the shooting side for being unsporting and cruel to the elk, the velvet side for supposedly posing a health risk to the consumers. And the ranchers, whose enclosed herd comprises some 110,000 elk in North America, are angry.

Fenced trophy hunts are already outlawed in several states. In November 2000 Montana, hitherto a stronghold of the industry, joined them, when voters approved a ballot initiative. Few locals had expected the initiative to succeed, but it got strong support not just from wildlife activists but also from many hunters, who prefer their targets not to be fenced in.

The ranchers tried to find a way round the ban by selling live elk to hunters, who then came round to shoot “their” trophies. Last autumn a state judge said this thwarted the clear intent of the law. The ranchers are furious. Mr Wallace had wanted to give his elk to the Crow Indian tribe, to let them run free on their tribal lands, but he was turned down because of fears about CWD. Saying he could no longer afford to feed the elk, he then advertised his free-for-all, and was duly swamped with offers: hence that sign.

Colorado, where hunting and fishing contribute an estimated $1.7 billion to the economy, still allows trophy hunting on fenced ranches. Its problem is CWD, a member of the family of brain diseases that includes Creutzfeldt-Jakob disease in humans. It was first discovered in mule deer kept at a Colorado state research facility near Fort Collins in 1967, and is known to affect a small percentage of wild elk and deer in Colorado, Wyoming and a corner of Nebraska. The most recent (and serious) outbreak has been traced to a single ranch, the Elk Echo Ranch, near Stoneham. Before the infection was discovered, the ranch had shipped more than 400 exposed elk to ranches and trophy-shooting operations around the country.

CWD was declared a national emergency by the Agriculture Department in September. This made it possible to distribute $2.6m in compensation to ranchers whose herds now have to be “depopulated”. Fear that CWD could be transmitted to humans has not helped the domestic market for elk meat, and the South Koreans, the main customers for antlers, have embargoed North American velvet.

A moratorium on the movement of all captive elk has just been lifted in Colorado, but the damage is still

being felt. Some 1,500 domestic elk that have been exposed to CWD are being destroyed. Elk ranches in 16 states have been quarantined, and unusual precautions, including the neon-orange paint, have been taken to stop exposed animals escaping to the wild.

The ranchers, a suspicious lot, claim that government scientists are to blame for the latest outbreak. The scientists reply that, without ranching, the disease would not have spread so far. Predators and harsh winters, they argue, would probably have curbed the disease's progress in the wild, but domestic elk are protected from such hazards.

In fact, nobody seems to know exactly how the disease is transmitted, and there is no sure way to test live animals for infection. The only way to keep it in check seems to be mass-slaughter. In Colorado, officials are apparently studying an outbreak in Saskatchewan, in Canada. There, about 6,500 domestic elk have been slaughtered, and some C$40m-worth ($25m-worth) of compensation has been given to ranchers.

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Lexington

King of the Hill

Jan 10th 2002
From The Economist print edition

In praise of Ted Kennedy—ideological dinosaur, libertine and pragmatist

TOM DASCHLE has more official clout. Hillary Clinton has more hard-core fans. John McCain has more media sycophants. But the senator with the biggest legislative muscle on Capitol Hill is a Rabelaisian roustabout who hasn't had a new idea since the 1960s. Ted Kennedy was kicked out of Harvard for getting a fellow undergraduate to take a Spanish exam for him. His name is forever tied to Chappaquiddick and Palm Beach. Yet he is now widely hailed as one of the most influential legislators of the past 50 years—and as a greater senator than JFK. Yesterday's libertine has become today's king of the Hill.

Mr Kennedy's influence was on display on Tuesday as he flew around the country with George Bush to tout the new education bill. The bill may bear both Mr Bush's signature and a title culled from his presidential campaign (“No Child Left Behind”). But it has Mr Kennedy's fingerprints all over it. The bill moved much quicker once James Jeffords quit the Republican Party and Mr Kennedy became chairman of the Senate health and education committee. He forced the Republicans to drop the bill's most radical measure (vouchers for poor parents), added billions of dollars in federal spending, forced the left to link that money to performance, and crafted a great deal of its fiddly detail. He even trained his dog, Splash, whom he takes to work, to bark whenever Paul Wellstone, a voluble leftist, decried the law.

The education bill is only the most recent addition to a huge pile of legislation that Mr Kennedy has shaped in his almost 40 years in the Senate. During the Reagan years he probably had more influence on health-care laws than any right-wing think-tank. In the Clinton era he influenced everything from apprenticeships to parental leave.

His ideological baggage is almost as heavy as his personal embonpoint

This legislative achievement is all the more remarkable when you consider the baggage that Mr Kennedy carries. When he first arrived in the Senate he was widely dismissed as an aristocratic waster—a prejudice that was reinforced by the fact that he not only inherited his brother's seat, but also used a college roommate to keep the seat warm until he hit his 30th birthday, the Senate age of majority. He has also come through (albeit with little credit) two giant scandals. In the first, a young campaign aide drowned after he drove his car off a bridge in New England. In the second, an evening's carousing in Florida culminated with his nephew being charged with rape.

His ideological baggage is almost as heavy as his personal embonpoint. Mr Kennedy is an old time left-winger in a conservative age—a man who routinely fills his speeches with knee-jerk denunciations of the forces of reaction and racism. For most of his career he has had to deal with Republican presidents, Republican majorities in Congress and Democrats embracing conservative ideas, as Mr Clinton did on welfare reform.

There are three reasons why this leftish libertine has not just survived but prospered. The main one is his instinctive pragmatism. Mr Kennedy may love playing the old-time religion in public, but in Senate committee rooms he is more interested in getting things done than in striking empty poses. The current education bill is a classic piece of horse-trading that provides the Republicans with testing and accountability in return for more federal money and more generous treatment of poor children.

This pragmatism is based on close personal relationships with the same right-wing monsters he condemns in speeches. His love-affair with Mr Bush may seem particularly intense (typical date: dinner at the White House to watch a film about the Cuban missile crisis; typical present from George: naming the Justice Department after Robert Kennedy). But he has been triple-timing Mr Bush with Bill Frist (on

bioterrorism) and Sam Brownback (on terrorism and immigration), and in the past he has worked closely with Dan Quayle (on job training), John McCain (on patients' rights), Phil Gramm (on impeachment) and Orrin Hatch (on just about everything).

Second, Mr Kennedy is a pro. “Professionalism” is not the first word that comes to mind when you contemplate the senator's impressive girth and broken capillaries. Yet Mr Kennedy is one of the last remaining politicians who happily combines hard living with hard work. He is famous in the Senate for reading his briefs every night and for agonising over the tiniest minutiae during committee meetings. Asked to name his greatest strength a few years ago, he replied “perseverance”. And he boasts the most professional staff on Capitol Hill. Many of his leading staffers have been with him for decades, but he also has a talent for picking rising stars: David Boies, Bill Gates's inquisitor in the Microsoft case, and Stephen Breyer on the Supreme Court.

The third reason for his enduring influence is tradition. The Senate is a gerontocracy. Purely by being there so long, Mr Kennedy has worked his way into its most senior positions: as well as being chairman of the education committee, he is also highly placed on the armed-services and judiciary committees. It is also a matter of style. Mr Kennedy harks back to an earlier era in the Senate, when legislative achievement was much more highly valued than partisan politicking.

None of this means that he is without faults. Many people (and not just Republicans) will never forgive him for being a rich kid who has habitually exploited family connections, not just to get into the Senate but also to protect himself from justice. But, in his own corpulent way, he also represents a more diligent side of dynasty. Being born to a great political family also brings burdens—inflated expectations and the knowledge that everything you achieve will be put down to that background. The old rogue must have been sorely tempted to devote his life to self-indulgence, rather than sticking to the task of trying to measure up to his legendary brothers (impossible) and redeeming his own reputation (still unlikely). But he has tamed his unruly nature and devoted himself to public service. No wonder Mr Bush regards him as a man he can do business with.

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Argentina's economy

Devaluation's downbeat start

Jan 10th 2002 | BUENOS AIRES
From The Economist print edition

EPA

The new government has dumped much of the cost of abandoning the fixed exchange rate on to foreigners and banks

Get article background

"IF ARGENTINA falls one more step, there will be a bloodbath," said Eduardo Duhalde, its new president, urging Congress to grant him emergency powers to cope with the country's economic collapse. Sitting over the weekend, Congress duly granted those powers. Mr Duhalde promptly used them to order a devaluation—and launched Argentina into the unknown.

After a decade in which the peso has been fixed at par to the dollar, many of the emergency measures unveiled on January 6th by Jorge Remes Lenicov, the economy minister, are designed to cushion the impact of the devaluation on ordinary Argentines. Instead of a free float, the government has set an official exchange rate of 1.4 pesos to the dollar (ie, a 29% devaluation) for exports, those imports judged to be essential, and most capital transactions. Seekers of dollars for imported "luxuries", tourism and other transactions will have to buy them at a market rate.

The government wants to maintain this new peg for three to six months. Mr Remes hoped that the free rate would stay close to the official one. But that looked optimistic. In the street, the peso was trading as low as 1.60 to the dollar. Having originally said that the foreign-exchange market could re-open on January 9th, the government later postponed this by two days while it worked on the new regulations.

Mr Duhalde's measures dump much of the pain from the devaluation on to the banks. Most mortgages and loans were taken out in dollars, while wages are mainly in pesos. So a devaluation makes most Argentines as bankrupt as their government. Under the new measures, dollar loans of less than $100,000 will be converted into pesos at par. But to soothe angry depositors, Mr Duhalde had earlier promised that bank deposits in dollars (as most are) will be returned to savers in full. He did not say when, though, and for now the restrictions on bank withdrawals imposed last month remain in place.

In another move to appease the public, the tariffs charged by privatised telephone, water and energy companies will change. These have been pegged to the dollar and indexed to United States' inflation, even though prices have been falling in Argentina for the past five years. Utility tariffs will now be switched to pesos at par, and the link to American prices scrapped.

With many of these measures, Mr Duhalde appeared to be trying to avoid the fate of his two immediate predecessors, Fernando de la Rua and Adolfo Rodriguez Saa, each of whom was driven from office at the end of last month by political opposition, riots and pot-banging citizen protests. In a country with a

history of hyperinflation, the government is clearly scared that an uncontrolled devaluation would lead to massive price rises. In fact, though some prices have already gone up, the economy's deep recession may restrain inflation. And for now, at least, Mr Duhalde's measures have been greeted calmly, though there have been isolated protests, some by workers owed wages.

But the measures leave the banks—most of the big ones are foreign-owned—staring at huge losses. To compensate, they will receive the proceeds from a new tax of up to 20% on oil and gas exports (the main exporter, Repsol, is Spanish). That will not be enough to save many of the banks. As well as having many of their loans but not their deposits devalued, the banks will lose in other ways. Their bad debts will rise, as many larger debtors (whose loans remain in dollars) default. And secondly, the banks hold many government bonds, now worth little. The bankers claim they will lose more than $10 billion from turning loans into pesos, or more than half their total capital of $17 billion.

To shore up its financial system, Argentina will need IMF support. The government will also have to persuade bank shareholders to inject fresh capital. Mr Remes has talked of seeking a fresh IMF loan of $15 billion-20 billion. But to get it, he has some work to do—even if (a big if) the IMF accepts the exchange rate and banking measures.

If inflation and the exchange rate are to be restrained, Congress will have to approve a convincingly balanced budget, which Mr Remes promises to publish within weeks. Last year, as the economy nosedived, the government's deep spending cuts failed to keep up with plunging tax revenues, causing a deficit of $9 billion. Now, the government will save some money by not servicing most of its debts, but balancing the books will require further, deep cuts. It promises to do so by ejecting the armies of political appointees in the civil service who draw a salary but do little work. But will it? Those who benefit from this political parasitism are traditional party bosses such as Mr Duhalde and others on whose congressional backing he now relies.

As governor of Buenos Aires province, Mr Duhalde was a populist. He has spoken of reversing Argentina's free-market reforms, though in practice the government is trying to present a more orthodox face. While Congress gave officials powers to impose sweeping price controls, they say they will use them only on sensitive products such as fuels and medicines. Sensibly, Mr Duhalde has rejected Mr Rodriguez's scheme to print a third currency. Instead, the government will issue a modest $2.8 billion in promissory notes to clear the unpaid wages of provincial-government employees (a measure already announced by Domingo Cavallo, Mr de la Rua's economy minister). And despite some talk of protectionism, the government is setting out to rebuild its shattered relations with Brazil and Mercosur.

Mr Duhalde and Mr Remes face an enormously delicate balancing act. They may need to do more to help the banks, even as they are forced to take harsh budgetary measures. As soon as possible, they need to free prices, including the exchange rate, even though in the short-term devaluation means inflation and falling living standards. They must persuade angry bond-holders and utility companies not to sue but rather to accept their lot. And as soon as possible, they need to start unfreezing bank deposits.

At the same time, Mr Duhalde needs to retain the support of his fellow Peronists, and of other political bosses, such as Raul Alfonsin of the opposition Radicals, who has backed the measures. If the government fails, Mr Duhalde will no doubt resign and call an election, plunging Argentina into the political vaccuum into which it was briefly sucked over Christmas.

Martin Redrado, who is in charge of economic affairs at the foreign ministry, points out that Brazil recovered strongly after its turbulent devaluation of 1999, and inflation there remained low. But Brazil had a stronger banking system than Argentina now has, and the economy was not dollarised. Miguel Angel Broda, an independent economist, says that, at best, the new government's measures may halt the economy's “implosion”; he reckons that it contracted at an annual rate of 15% in the last quarter of 2001. But, he says, recovery is a very distant prospect. Bankers would no doubt agree: after this, neither depositors nor investors will be in a hurry to put money into a bank in Argentina. And a bankrupt banking system would mean no credit, and no recovery.

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Politics in Mexico

Post-rebellion pains

Jan 10th 2002 | SAN CRISTOBAL DE LAS CASAS
From The Economist print edition

Poor Chiapas—so far from Mexico city

Get article background

EPA

And so close to warring gods

IT WAS once said that the pavements of San Cristobal de las Casas were for light-skinned *ladinos*, while the streets were for donkeys and Indians. Which were often the same thing: the *ladino* landowners used “their” Indians as pack animals. Today, in the colourful mountain town blond tourists hop off the pavements to let barefoot Indian women pass with their bundles, and the streets are choked with cars.

But in many respects, Chiapas remains Mexico's most troubled, as well as its poorest, state. Its deep-rooted conflicts over land, religion and politics, which lay behind an uprising by Zapatist guerrillas in 1994, continue unabated. The uprising drew the world's attention to Chiapas, and was one reason why the long-ruling Institutional Revolutionary Party (PRI) lost both the presidency of Mexico and the state governorship in elections in 2000. Vicente Fox, Mexico's new president, tried his best to end the rebellion on taking office a year ago. But talks foundered, so the rebel zones, although quiescent, remain off-limits to government.

The rebellion, and the official response to it, added to divisions that have long pitted village against village. Zapatist invasions of disputed land prompted the government to start an arbitration process. But many cases are still pending. As many as 15,000 people have been expelled from their villages by the conflict, or through harassment by armed groups backed by the PRI. A heavy army presence contained the rebels but brought other ills, ranging from water pollution to prostitution.

Under the PRI, government money was used to weaken the Zapatists, dividing those villages that supported the rebels from those that succumbed to the lure of aid and public works. The most zealous Zapatist towns kicked out their mayors and refused official resources, relying on volunteers to provide services such as teaching. Where these volunteers have not been up to the task, a generation of children has missed out on proper schooling.

Pablo Salazar, who defeated the PRI to become Chiapas's governor, faces several handicaps in tackling these troubles. His coalition is shaky. The state congress is still dominated by the PRI. Even so, Mr Salazar has not done too badly. He has dropped counter-insurgency tactics, such as discriminate social spending and money for armed anti-Zapatist groups. He is pushing reforms aimed at reducing the PRI's control over institutions like the state congress and the courts. And he has shaken up the police: all 25 regional commanders were jailed after they mutinied in September; the former police chief is on the run.

A clean-up has begun: according to Mauricio Gandara, the state's minister of public security, the money that used to be skimmed off the police budget by corrupt bureaucrats was enough nearly to double police officers' basic pay and set aside a hefty sum for training. The state no longer pays millions of dollars a year to newspapers to print friendly articles (or so it says), unleashing a hefty barrage of unfriendly ones from some papers (though others, oddly, remain slavishly pro-government).

Mr Salazar has also begun a reconciliation programme that helps displaced people return to their villages—around 1,400 already have—and mediates between warring factions. A federal judge's recent decision to release six people accused of the worst massacre of the conflict, in 1997, has made things harder. Even so, human-rights groups, traditionally strongly pro-Zapatist, are cautiously optimistic.

Mr Salazar is criticised by some for moving too slowly, hampered by an inability to form the alliances he needs. But however fast he works, Chiapas will need many more good governors before the rest of the state is as egalitarian and peaceful as San Cristobal.

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The Caribbean

Crime without punishment

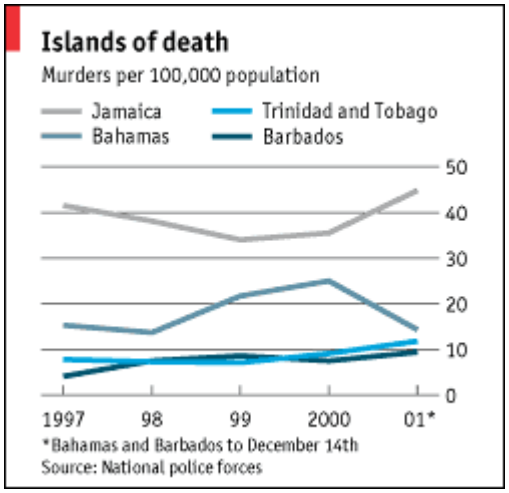
Jan 10th 2002 | PORT OF SPAIN
From The Economist print edition

Better policing, not the death penalty, is the answer

AP

ANOTHER year, another bloodbath: on New Year's Eve gunmen from 100 Lane, a slum enclave in the northern part of Kingston, Jamaica's capital, killed Glenroy Maize, a juice vendor who lived in Park Lane, just round the corner. Two nights later, 30 of Mr Maize's trench-coated friends took their revenge. Armed with AK-47 and M-16 assault rifles, they blocked off 100 Lane, and killed seven of their neighbours, including two young girls and their mother.

There were 1,138 murders last year—up from 887 in 2000—in Jamaica. Per head, only Colombia and Central America have more killings. The carnage has brought calls from politicians and the public for the use of the death penalty, as a quick fix. Such clamour is common throughout the English-speaking Caribbean. In 1999, Trinidad brought back the noose. Ten men were hanged with great public fanfare in 1999. Far from falling, the murder rate has risen slightly since then (see chart).



Deterrents, however severe, do not work unless killers are rational and expect to be caught. In cases of domestic violence, which accounted for 28% of Jamaica's killings last year, the culprit is easily identified, but not easily deterred. Half of the murders are the work of the island's politically-linked drug gangs. Park Lane is a fief of the opposition Jamaica Labour Party; 100 Lane belongs to the governing People's National Party. A police post between the two was closed last year. With an election due some time this year, the violence may intensify.

Thanks to the drug mobs' political connections, gangland and reprisal killers are rarely arrested. Between 1997 and 2000, Jamaica's police cleared up only 49% of murder cases. Police methods in Jamaica, as in many of the other islands, are clumsy: the police themselves are often accused of killing innocent civilians. Recruits spend much of their time on parade-ground drill and firearms practice. They are not well trained in detection and they are short of forensic equipment.

But some islands are showing that better policing brings results. Of the 25 murders in Barbados last year, 21 were cleared up. Robberies fell by a third. The police credit community work, more foot patrols, extra vehicles and sharper investigations. A new forensic lab will be ready by June. Unlike Jamaica, the Bahamas locks up some of its drug lords. The murder rate in the Bahamas (population: 300,000) surged in 2000. Many killings were drug-related, and only two out of three were cleared up. Then the police rounded up eight drug kingpins; since June 2001, the murder rate has fallen by half. And 400 Bahamian police have taken training courses in how to handle domestic violence, a welcome change from the traditional attitude of ignoring “man and woman business”. Come back, PC Plod.

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Colombia's peace process

End of the road?

Jan 10th 2002
From The Economist print edition

Talks are off, at least until after the presidential election

BEGUN three years ago amid great optimism, peace talks between President Andres Pastrana's government and the guerrillas of the Revolutionary Armed Forces of Colombia (FARC) had long ago degenerated into irrelevant deadlock. Even so, it came as a surprise when on January 9th Mr Pastrana suddenly announced that he was ending the talks. He gave the FARC 48 hours to withdraw from a large “demilitarised” zone he had turned over to them.

Three months ago, the FARC had walked out of the talks, after the armed forces began to patrol around the edges of the zone and fly over it. The government also banned foreigners from entering the zone, after three members of the IRA had been arrested on their return from the area; they are alleged to have been training the FARC.

Last week, the guerrilla negotiators returned to the table, but only to restate their objections to surveillance of the zone. Despite this deadlock, Mr Pastrana had been expected to extend the life of the zone when it came up for renewal on January 20th. He has staked his presidency, which ends next August, on achieving peace. But the talks have achieved no concrete agreements (apart from a prisoner swap), nor a ceasefire. Colombians are disillusioned. And after September 11th, the United States' lack of enthusiasm for the talks has turned to concern over the zone's existence.

What now? Unless the FARC backs down and accepts surveillance, allowing a last-minute deal, the armed forces may swiftly reoccupy San Vicente del Caguan, the main town in the zone (though not the nearby mountainous jungles). Fighting may intensify. But the guerrillas have their eyes on a presidential election in May. They may try to influence its outcome by offering fresh negotiations to whichever candidate they favour.

All the main candidates will offer tougher terms than Mr Pastrana did in 1998. The days of “Farclandia”, the guerrilla mini-state, look to be over. The FARC, an 18,000-strong peasant army led by communists and financed by drugs and kidnapping, has missed its best opportunity to win political concessions. But sooner or later, it is likely to return to the negotiating table.

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Afghanistan

The rebuilding begins

Jan 10th 2002 | MAZAR-I-SHARIF
From The Economist print edition

Reuters

It is early days, but a kind of stability is returning to Afghanistan

SOME of the gloomier forecasts about the net result of the United States' war against the Taliban have turned out, so far at least, to be too pessimistic by half. One school of Afghan-watchers, for example, was convinced that as soon as the old regime of Islamic zealots was driven out, the alliance of victors would simply split up along tribal lines and start slaughtering one another.

On that score, at least, things look a bit better than anybody expected. At a reception this week to celebrate the opening of a field hospital in Mazar-i-Sharif, the ancient capital of northern Afghanistan, the atmosphere was full of multi-ethnic bonhomie. Abdul Rashid Dostum, a warlord and leader of the Uzbek minority, was fraternising happily with his Tajik rival (and partner in the anti-Taliban coalition), Atta Mohammed, in a crowd that also included aid workers, UN bureaucrats and—perhaps significantly—two American generals.

Under heavy western pressure, all the main power-brokers of Afghanistan's ethnically divided north seem to be accepting the authority of Hamid Karzai, the leader of the country's carefully-balanced interim government—who belongs (like the Taliban) to the Pushtun ethnic group that dominates the south of the country.

General Dostum, who once proclaimed a separate currency and flag for a breakaway statelet in northern Afghanistan, at first threatened to boycott the new government, but changed his mind after being offered the post (however notional) of deputy defence minister. “As long as there are American bombers in the sky, no faction will dare to start fighting,” observed one Tajik officer.

That, then, is the good news; there are no open challenges to the authority of Mr Karzai and his internationally-sponsored government. And with that Afghanistan appears to have a fighting chance, at least, of breaking out of its vicious circle of poverty, displacement and internecine warfare for the first time in two decades.

In a televised address on January 9th, Mr Karzai called for the creation of a national army and a sound currency; as a start, no more unsupported banknotes would be printed. He also promised to encourage local industry, create jobs and establish a market economy. Such talk may have an idealistic ring, but it does not sound completely absurd.

Another ground for relief—at least compared with the worst predictions—is that, in the words of the UN's World Food Programme, “the risk of a widespread famine has been averted.” The fact that so much food aid has entered the country—116,000 tonnes last month—is a tribute to the resourcefulness of the country's truck drivers, whose informal intelligence network swiftly gauges the risks (from bombs, banditry or avalanche) of any route.

According to the UN, there should now be enough food in Afghanistan to feed most of the 6m people who need help. But getting food into cities and towns is only half the battle. There are still areas of severe malnutrition, and even starvation, especially in the inaccessible parts of the Hindu Kush. Thousands of people in the Abdullah Gan highlands, till recently a battleground between the Taliban and the Tajik-Uzbek alliance, are eating little more than barley and grass.

Six out of the seven hungriest provinces are in the north, where 500,000 people have abandoned their rural homes in search of food in towns and cities. Rain has fallen after three years of drought, but farmers have little or no seed to sow. In places where oxen have starved to death, men are pulling their own ploughs or trying to put camels under the yoke.

To feed the north, the UN has relied heavily on a single, treacherous, muddy track leading from Turkmenistan—in part because the authorities in Uzbekistan, who could provide a much simpler route via the river port of Termez, have been unco-operative.

In refugee camps near Herat in the west, UN officials say they lack the drugs to deal with widespread tuberculosis and other serious diseases. And Kandahar, the southern city that was the power base for the Taliban, remains chaotic. The UN and all but a couple of aid agencies still consider it too dangerous to work there.

The new government, meanwhile, is still struggling to consolidate its authority. On January 9th, the interior minister, Yunus Qanuni, ordered all armed irregulars to leave Kabul and return to their military bases. Commanders of the northern alliance, which swept into the city two months ago, were told to get out of the civilian homes they had seized—and to bring their men back to their homes in the Panjshir valley. This will be a test not just for the government but for the British-led security force that is slowly being assembled. Beyond the capital, the government's authority remains shaky. A group of senior Taliban were recently released without authorisation.

Only in the spring will it become clear whether conditions exist for the repatriation of the 3.5m or so Afghans who—as a result of the wars that have raged almost incessantly for the past 20 years—are now refugees in Pakistan, Iran and farther afield. About 80,000 people have re-entered Afghanistan since the Taliban fell, but there have also been fresh outflows from areas still affected by banditry, bombing or revenge killings. In northern Afghanistan, for example, small Pushtun minorities have good reason to fear score-settling by local Tajiks or Uzbeks who suffered under Taliban rule.

For the time being, the UN refugee agency is warning host governments not to send Afghan families home too quickly. But if, for example, the fertile fields and orchards of the Shomali valley east of Kabul—repeatedly fought over, ethnically cleansed and mined during the past decade—could, with UN help, be rendered fit for human habitation, that would be a powerful signal of hope.

In Mazar-i-Sharif, residents dimly remember the time when their city was best known for producing pomegranates and wine-red carpets—and intrepid visitors came to marvel at the turquoise-tiled shrine to Hazrat Ali, the son-in-law of the Prophet Muhammad. For the first time in many years, it is not impossible to imagine that those days could return.

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Kabul zoo

Kabul's lion king

Jan 10th 2002
From The Economist print edition

An international effort has been launched to help the Kabul zoo

Reuters

Feeding time

MARJAN, the crippled lion of the Kabul zoo, has graduated from obscurity to star status. A few years ago, the creature bit off the leg of an Afghan soldier who had ventured into his den. He was rewarded with a hand grenade, which left him blind in one eye and partially toothless. Since then, his zoo has grown ever more decrepit. In the mid 1990s, the World Society for the Protection of Animals (WSPA) launched an appeal for zoos in war zones, but it has largely fallen on uninterested ears.

With Afghanistan now very much in the news, American and European zoo associations are flying to the rescue of Kabul's zoo. Spurred by the media coverage, close to $500,000 has been raised in less than six weeks and the money keeps flowing in. North Americans have been by far the most generous, with thousands of donations, amounting to over $350,000, for the zoo itself, and another $100,000 for Afghan pets and livestock. T-shirts have been printed and children have been sending their Christmas money.

WSPA has sent people to do emergency work at the zoo, and to help look after the animals there. Foreign zoos will also send a team of experts to decide on how best to spend the money over the longer term. Some cash has already been sent via British journalists to feed the hungry animals and pay for the staff. Other priorities will probably include repairing crumbling buildings, caring for the sick survivors, and restoring the power supply and heating.

There is indeed a lot of work to be done. Created in 1967, the Kabul zoo once had over 400 residents. Years of conflict have taken their toll, with animals increasingly seen as food rather than attractions. The zoo has also provided entertainment of a new kind for some Afghans, who taunt and beat up whatever has not already ended up on a plate. Besides a handful of pigeons and rabbits, there are now fewer than 40 survivors, including the blind Marjan, an ailing bear, birds and monkeys.

Thanks to the renewed international attention—and over $10,000 worth of donations per animal—the zoo should now be safe. Unlike their government, however, the American public has not been very generous to Afghan refugees: since its September appeal, the UN High Commissioner for Refugees has received less than 50 cents of American private money per fleeing Afghan.

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Pakistan

Musharraf's move

Jan 10th 2002 | ISLAMABAD
From The Economist print edition

The general prepares to crack down on Pakistan's militants

AP

Musharraf and Vajpayee: still wary

DURING a meeting between Pakistan's president, General Pervez Musharraf, and newspaper editors shortly after September 11th, one participant asked the president if he was now prepared to take off the kid gloves and deal with Islamic extremists bent upon stirring up trouble. “Don't be negative,” snapped the general. “I know how to deal with the situation.” But it has taken the threat of a full-scale war with India and telephone calls from President George Bush urging General Musharraf to “do more against Islamic terrorism” for the promise to start to become a reality.

India was provoked by a terrorist attack on its Parliament building in Delhi on December 13th in which 14 people died. Threatening war, it held two Pakistan-based groups—Jaish-e-Muhammad and Lashkar-e-Taiba—responsible. Both had earlier admitted they were conducting guerrilla warfare in Indian-held Kashmir and one had even threatened to carry its attacks to Delhi. General Musharraf ordered the arrest of the leaders of the two groups and scores of their followers when international pressure to crack down on them became unbearable, though he unconvincingly maintains the arrests were not related to Indian accusations.

“The iron fist will be revealed soon,” Major-General Rashid Qureshi, Pakistan's government spokesman, promised this week. He was referring to a planned speech to the nation by General Musharraf over the weekend in which the president is expected to outline stiff measures against religious extremists. Mullahs will not be allowed to use their mosques to preach sectarian hatred or deliver political sermons from the pulpit. Incitement to violence will be strictly dealt with. Military tribunals may even be established to tackle religious terrorism because the judiciary is afraid of taking on the fundamentalists.

A further idea of what may be in store was provided by General Moinuddin Haider, the interior minister. “We have decided to bring over 10,000 religious schools and seminaries controlled by the mullahs into the ambit of our mainstream educational system and to subject them to scrutiny,” he said. “Every *madrassa* [religious school] will be asked to furnish details of its income and foreign students.” Mr Haider's brother was assassinated a month ago by unknown terrorists in Karachi, apparently as a warning to him. Even more intriguing, there are reports that General Musharraf has ordered the country's powerful Inter Services Intelligence agency (ISI), which is credited with running covert wars in Afghanistan and Kashmir, to end its backing for Islamic militant groups fighting in Kashmir.

Hints about the measures that General Musharraf is expected to announce also came from a group of visiting American senators who met the Pakistani president last week. One said the general seemed ready to tackle the scourge of religious extremism. Another thought he was a hero for taking such “hard and risky” decisions. An American diplomat said that his forthcoming speech was being billed by government sources as the “debut of Jinnah II”, a reference to the secular founder of Pakistan, Mohammed Ali Jinnah, whose liberal ideas and modern vision have all but been forgotten by opportunist Pakistani leaders.

Some observers think it is all too good to be true, noting that

most of the reforms have been promised before, and that there have been many false dawns in the past. Others, though, note that the general has no real choice after having sided with the United States over Afghanistan. “The battle lines are drawn. He must get the mullahs before they get him,” says one. General Musharraf's personal security has been strengthened. Fortunately for him, no public backlash is expected when he moves to take on the fundamentalists. Most Pakistanis do not like the mullahs, do not vote for their parties in elections and did not in any numbers join the agitation against the government after the American intervention against the Taliban.

“The real challenge, however, will come over restructuring the ISI, which has become a state within a state and is running our foreign and domestic policies,” says a member of General Musharraf's cabinet. But there may be grounds for optimism. According to reliable sources, the general has called a halt to the ISI's external operations, for the time being at least, and got rid of the most belligerent of the old guard. “The new lot is decidedly liberal and less aggressive than the old one,” says an insider. Whether all this will persuade India to start peace talks with Pakistan, and move towards a solution to the problem of Kashmir, still remains to be seen.

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Sri Lanka's civil war

The wounded Tigers

Jan 10th 2002 | COLOMBO
From The Economist print edition

A chance for peace

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AP

Wickremesinghe gambles

AT LAST the Tamil Tigers may be willing to reach an accommodation with the Sri Lankan government to bring peace to the country. Any deal is not likely to be done in a hurry, and there is no certainty that it will be permanent. What is heartening are the signs of a change of mood in the Tigers' leadership that has not been apparent in the past 18 years of civil war.

The Tigers have been badly wounded; not in a military sense, but diplomatically. Over the past year or two many countries have been losing sympathy with their aim of establishing a separate state in the north and east of the island. In February last year Britain, the former colonial power, shut down the Tigers' office in London. Since the attacks on the United States on September 11th, the Americans and their allies have included the Tigers in the worldwide ragbag of groups regarded as terrorists. In most capitals, the Tigers' sources of money are being tracked down and their bank accounts frozen. The Tigers are desperate to protect the rest of their money, which is mainly collected from sympathisers abroad. They need to strike a deal with the Sri Lankan government that will restore some respectability to their organisation.

Their change of mood comes at an opportune time for Ranil Wickremesinghe, Sri Lanka's new prime minister, whose coalition, the United National Front, swept to power in December's parliamentary election. As a prelude to hoped-for peace talks, both sides are observing a month-long ceasefire that started on December 24th. As a further gesture, the government has lifted a ban on goods destined for areas controlled by the Tigers.

At first any talks are unlikely to be attended by the Tigers' leader, Velupillai Prabhakaran. His front man is Anton Balasingham, who, despite Britain's apparently firm line on terrorism, continues to operate in London. This week Mr Balasingham proposed that India should play host to any talks. Madras, he thought, would be a good place for the get-together. India is unlikely to want to be directly involved at this stage. It proscribed the Tigers in 1991, believing that they murdered a former Indian prime minister, Rajiv Gandhi. The present prime minister, Atal Behari Vajpayee, would probably be happy to see Mr Prabhakaran put on trial. Mr Balasingham of course knows this, and his Madras proposal may be a feeler to see whether India, once the Tigers' patron, remains its enemy. Any peace deal giving substantial advantages to the Tigers would have to be approved by India, the regional superpower.

Norway is likely to be the link to bring the two sides together. An earlier attempt by Norway, when the previous Sri Lankan government was in power, to be the peacemaker ended in failure. But the Norwegians are prepared to try again. A team led by Norway's deputy foreign minister, Vidar Helgesen, arrived in Colombo on January 9th. Norway's interest in a peaceful Sri Lanka is not wholly altruistic. Norsk Hydro, a Norwegian oil and gas company, has a 67% stake in Ceylon Oxygen, whose products include industrial gases and medical equipment. Ceylon Oxygen used to be a state-run concern. Under the Norwegians it is one of the

fastest growing companies in Sri Lanka. Norwegians now hope to win a contact in Sri Lanka to build and run a fuel-storage plant for aircraft. It may be just coincidence that the Norwegian peace delegation arrived on the day that a seminar to promote Norwegian business and investment began in Colombo.

The Norwegians need every encouragement. The Tigers have not dropped their demand for a separate state for Tamils, although these days Mr Prabhakaran prefers to talk of a Tamil “homeland” rather than separatism. But whatever it is called, they must be aware that no Sri Lankan government would allow a slab of territory to operate entirely out of its control. A degree of autonomy is what has been proposed in the past. The best that the Tigers can hope for in the near future is that the government will lift the present ban on anyone belonging to or supporting the organisation. The proscription of the formally named Liberation Tigers of Tamil Ealam was declared by the Sri Lankan government in 1998. It had been one of the curiosities of the civil war that for many years no such ban was imposed. Over a long period the Tigers controlled the Jaffna peninsula in the north and ran the civil administration in Jaffna town.

Even this concession may be difficult for the Buddhists, three-quarters of the population, to stomach. The government does not want peace talks to start until local-government elections, due on March 1st, are out of the way. Meanwhile, the Norwegians and everyone else with goodwill towards Sri Lanka will hope that the ceasefire will be prolonged beyond the end of this month, and well into the future.

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Cambodia

The good life of Ieng Sary

Jan 10th 2002 | PHNOM PENH
From The Economist print edition

Justice is slow to catch up with the former Khmers Rouges

THE Cambodian prime minister, Hun Sen, said last week that the time for justice had come. About time too, in the view of those who wonder why the misdeeds of the former Khmer Rouge regime have taken so long to be examined in a court of law. Even now, though, it is unclear who will face trial in connection with the 1.7m people who died from starvation, overwork, disease and execution when the Khmers Rouges ruled Cambodia from 1975 to 1979.

Some Khmer Rouge leaders live in peaceful retirement in Cambodia. Some are in the army. Some have moved abroad. Pol Pot, the supreme leader, died in mysterious circumstances in 1998. But his close associate and relation, Ieng Sary, who held the post of deputy prime minister and foreign minister in his regime, is very much alive and a prominent personality in Phnom Penh, the capital. He lives in a 12-room house and is seen in the best Chinese restaurants. He acts like one of the capital's elite, to the chagrin of those who suffered under the rule of the Khmers Rouges.

Mr Hun Sen, who was himself once in the Khmers Rouges as a low-level commander, has been reluctant to bring members of the regime to trial, for fear, he says, of destabilising Cambodia. A trial might even reignite civil war between the government and previous supporters of the Khmers Rouges. When Khieu Samphan and Nuon Chea, both of them prominent in Pol Pot's government, surrendered in 1998, Mr Hun Sen welcomed them with great warmth.

He has been particularly kind to Mr Sary. He was issued with a diplomatic passport on December 25th 1996, apparently as a reward for encouraging defections of Khmer Rouge fighters to the government's forces. The passport was cancelled last September, though Mr Sary is said to continue to use the diplomatic channel when leaving and entering the country. He gives the impression of being rich. For many years the Khmers Rouges controlled the Pailin area, a source of precious stones that helped to finance them. Mr Sary once lived in Pailin and still has a house there.

Last August, Cambodia's King Norodom Sihanouk signed into law plans to create a tribunal to put Khmer Rouge leaders on trial. Cambodians still await a list of defendants and a date when the “time for justice” will really arrive.

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Japan

Green dreams

Jan 10th 2002 | TOKYO
From The Economist print edition

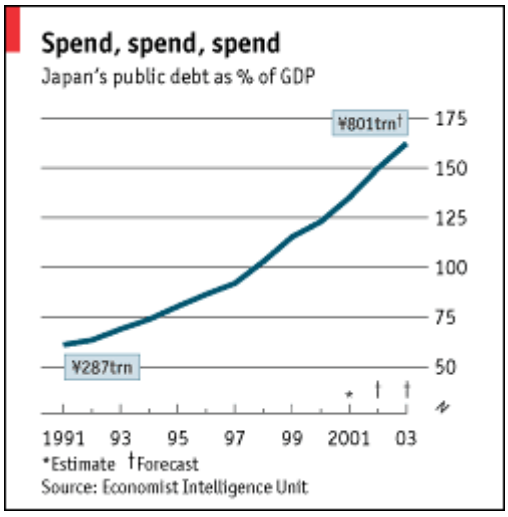
Can Japan boost its economy by protecting nature?

AFTER analysing Japan's economic and political problems at length, Koichi Kato suddenly turns rather emotional. As he shifts his attention to the environment, Mr Kato, who heads a prominent faction in Japan's ruling Liberal Democratic Party (LDP), harks back to an idealised golden age, when the people of the Japanese islands lived more in tune with nature. “Now,” says Mr Kato, “there are no trees on our mountains. There are no vegetables, no woods, no fish.” The confidence Japan once gained from economic development, he notes, has clearly vanished, and with it the compensation for the loss of a more harmonious life. “Even many poor countries believe in something,” says Mr Kato. “What is our basic value?”

Such laments are hardly unique to Japan, of course. In every developed country, voters and the politicians who woo them share a distaste for some of the environmental effects of economic growth. But in Japan, a decade of economic torpor—which the government warned voters recently would last at least another two years—has imparted a different twist to this debate. Instead of just looking for greener ways to boost output, politicians are pushing environmental reforms as a way to rescue Japan from its economic doldrums. Their proposals amount to the ultimate free lunch—one full of fish and vegetables and no doubt served on a leafy mountainside.

Some, such as Mr Kato, believe that exports provide one of the magic links, as they have so often before. By developing cleaner, greener technologies, they say, Japanese firms can foster yet another world-beating industry and sell their innovations abroad.

Other politicians have latched on to different angles. Naoto Kan, secretary-general of the opposition Democratic Party, proposes several traditional environmental schemes, such as promoting windmills and tightening rules on dioxin, a pollutant produced by some industrial processes which can cause birth defects. But he, too, thinks that some green policies can actually boost the economy. Instead of spending stimulus money on new dams, he asks, why not put people to work planting trees instead?



These ideas try to respond to two chronic worries of Japanese voters: that the economy will continue to slide, and that the construction state will cover what little remains of their country with concrete in a vain attempt to fix the problem. After a decade of fruitless building schemes, which have wrecked much of Japan's coastline and littered it with bridges that no one uses, the government still pours 19% of its budget into public works. Clever environmental schemes, say the new greens, could hardly be less effective at stimulating the economy—and they would at least make the place a lot prettier.

Given the power of Japan's entrenched construction industry, and the difficulty of pressing even the mildest of conventional reforms, such a shift of resources would be nearly impossible to pull off in practice. Besides, with a debt level of 130% of GDP, Japan is rapidly running out of room to afford any kind of economic stimulus, however environmentally friendly. Its government bonds have already been downgraded several times. Nevertheless, the slogan “green growth” does make a useful line of attack against the popular prime minister, Junichiro Koiziumi, whose cabinet continues to draw public support ratings well above 70%.

For opposition leaders such as Mr Kan, as well as LDP reformists such as Mr Kato, distinguishing themselves from Mr Koizumi while still attacking the LDP's dinosaurs has proved difficult. Promoting pro-green stimulus plans is one way of allowing them to stake a claim to the rhetorical middle ground. They are against the LDP's grip on public-works spending. But they are also looking for ways to criticise Mr Koiziumi if his own reform efforts—which involve fiscal-spending limits and exhortations to endure short-term pain—eventually prove unpopular. After all, when belt-tightening fails, free lunches become easier than ever to sell.

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Indonesia

The wheel turns

Jan 10th 2002 | JAKARTA
From The Economist print edition

The leader of the former ruling party finds himself a suspect

AP

Tandjung: biter bit

INDONESIAN prosecutors ended a long waiting game this week, by declaring the speaker of parliament, Akbar Tandjung, a suspect in a big corruption investigation. As well as serving as head of the lower house, Mr Tandjung is the leader of Golkar, the party that was the political vehicle of Suharto when he was president. It is still Indonesia's second-largest, and is a member of the coalition government of Megawati Sukarnoputri.

Golkar ministers threatened to resign in protest after Mr Tandjung had been declared a suspect in the investigation, which is in effect the equivalent of being charged. Mr Tandjung is one of Indonesia's most powerful politicians and played a leading role in the impeachment proceedings last year of ex-President Abdurrahman Wahid.

Ironically, the current scandal relates to the same state institution that started Mr Wahid's fall. Mr Tandjung is accused of wrongly authorising the issuance of 40 billion rupiah ($3.9 billion) from Bulog, the state commodities regulator, in early 1999, when he was a senior civil servant in the government of B.J. Habibie. Mr Tandjung says the money was used for food relief in Java, but many people say it was actually used to finance Golkar's campaign for the election in June that year. If so, Golkar breached campaign-finance rules. The party fared surprisingly well in that election, coming in second despite its close association with the widely despised Mr Suharto. Golkar had been famous under Mr Suharto's rigged election system for vote-buying and other dubious activities.

In recent weeks a succession of senior officials, including Mr Habibie, have been questioned by investigators. Little hard evidence has been found to back up Mr Tandjung's tale. He claims the money was transferred to a charitable institution, which distributed the aid, but the replies of those who run the charity have raised as many new questions as they answered. No regional officials have recalled any such programme of food relief and no journalists recall writing about it. During the investigation, however, claims have surfaced of intimidation of witnesses.

The stakes in this corruption case are high. In theory, if Golkar were proven to have breached campaign rules, it could be banned from the next election, which is due in 2004; it might even be dissolved. Few people think either of those outcomes is likely. There have been other attempts to get the courts to wind Golkar up and all so far have failed. The party's rich and well-connected politicians had decades under Mr Suharto in which to build up their links with officialdom, and their network remains largely intact.

The real casualty may be democracy itself. The 1999 election was the first relatively free one that Indonesia had held in four decades. If the party that came second in it were proved to have done so improperly, that would cast a dark stain on the whole process and only add to the already high level of cynicism among voters about their leaders. Election monitors claim all the main parties broke campaign-finance rules in 1999. Many voters are disgusted with the entire lot of them. This scandal will doubtless intensify their feelings.

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Zimbabwe's new laws

Democracy, who needs it?

Jan 10th 2002 | HARARE
From The Economist print edition

AP

Zimbabwe's parliament is in the process of passing bills that will make it hard for anybody other than Robert Mugabe to win the March presidential election

Get article background

WITH only two months left before the presidential election scheduled for March 9th and 10th, Robert Mugabe is in a hurry. Not, as might be the case in a more normal democracy, to hone his debating skills or coin a catchy slogan. Rather, Mr Mugabe is anxious to make sure that no aspect of the election will be free or fair.

Luckily for him, his party enjoys a large enough majority in Zimbabwe's parliament to pass a few helpful laws. He suffered a brief setback on January 8th, when too many ruling-party MPs sloped off home before a vote. Their absence from the chamber allowed the opposition Movement for Democratic Change (MDC) to block amendments to the Electoral Act that would have banned neutral election monitors, and allowed judges to jail dissidents for pinning up posters.

But just as he used to rally his men after setbacks during the war against white colonialism, so Mr Mugabe rallied his troops in the new war against democracy. He ordered his ministers to suspend normal parliamentary procedures in order to pass four tyrannical bills as quickly as they could. Dispensing with most of the usual rituals, his faithful MPs set about a process that will give the president extraordinary powers to bash his opponents.

The Public Order and Security Bill, for a start, makes it an offence to “undermine the authority of the president” or “engender hostility” towards him. It also bars Zimbabweans from speaking badly of the police. Some might be tempted to do so, however, if or when officers start using their new powers to disperse any crowd they do not like the look of.

Then there is the Access to Information and Protection of Privacy Bill, which bars public bodies from releasing more or less any important information. It also bans pesky foreign journalists from working in Zimbabwe, and subjects the locals to restrictions. They may not “spread rumours that cause alarm and despondency”. They may not publish leaked information. They may not publish stories that discriminate on the basis of race, sex, religion and-wait for it-”political affiliation”.

Johnathan Moyo, the information minister, must have enjoyed crafting that one. All journalists working for independent papers are obliged to register with Mr Moyo for permission to continue working. Most, if not all, are planning to risk jail by defying him.

An amendment to the Labour Relations Act bans strikes that lack official approval. Given that Zimbabwe's trade unions fervently support the MDC, it is perhaps unlikely that approval will be granted. Mr Mugabe also plans to have another, possibly illegal, go at amending the Electoral Act. Besides the ban on independent monitors, non-governmental organisations are to be barred, for instance, from telling rural voters that the ballot will be secret. Zimbabweans living abroad will no longer be allowed to vote by post, unless they are diplomats or soldiers.

All these bills are blatantly unconstitutional, and a number of organisations and individuals plan to challenge them. This could be tricky. Seven top judges have resigned or retired in recent months, some after receiving thinly-disguised death threats from the justice minister. Hacks have been appointed to replace them, who may not look kindly on challenges to Mr Mugabe. They have already ruled his expropriation of white-owned land to be lawful, which it plainly is not.

In the run-up to a parliamentary election in 2000, Mr Mugabe deployed several thousand “war veterans” to beat up opposition supporters, and threaten rural voters with burnt huts, if they failed to support the ruling party. This year, he has decided to muster reinforcements. Hordes of jobless youths from the countryside have been sent to two-week training camps, from which they emerged last month with snappy green uniforms and supple wrists for sjambokking people. This new militia has already been blamed for the deaths of six MDC members.

Despite such thorough preparation, Mr Mugabe could still lose. He is widely detested. Thanks to his misrule, inflation is running at more than 100% and basic food is in short supply. Small riots are erupting in shops and markets, as customers scramble for scarce groceries. Mr Mugabe's opponent, Morgan Tsvangirai, the MDC leader, has given up hope of a fair contest. But he says that Zimbabweans cannot afford to boycott the election: it is probably their only hope of a peaceful change of government.

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Palestinians and Israel

Arms and the man

Jan 10th 2002 | EAST JERUSALEM
From The Economist print edition

Has the relative calm of the past three weeks now come to an end?

AP

No escape from the men with guns

AFTER three of the quietest weeks that the 15-month *intifada* has known, violence has exploded again in Israel and the occupied territories. On January 9th two Hamas guerrillas killed four Israeli soldiers, and were then killed themselves, at an army base south of the Gaza strip. In immediate retaliation, Israel destroyed about 40 homes in Rafah refugee camp in Gaza, making hundreds homeless.

The Hamas attack marked a serious breach in the ceasefire declared by Yasser Arafat on December 16th. Before it, only one Israeli had been killed (as against 44 in the first two weeks of December) though the Israeli army had killed 21 Palestinians, 11 of them children. Hamas had declared a moratorium on all armed operations in Israel. But tensions have been simmering.

On January 8th, Mr Arafat's policemen had wounded two Palestinian schoolgirls in a Gaza refugee camp in a botched attempt to arrest a leading Hamas activist. Claiming responsibility for the attack on the army base, a Hamas spokesman questioned Mr Arafat's efforts to impose a ceasefire and find a diplomatic route out of the crisis. “What have you to show for meeting the demands of the Zionist entity and America?” he asked.

The short Palestinian answer would be “Not very much.” Mr Arafat had hoped that, with a period of quiet, the brief return of Anthony Zinni, America's special envoy, to the region on January 3rd would result not only in pressure on himself to combat “terrorism” but also on Israel to lift its siege of the occupied territories, withdraw its forces from Palestinian areas, freeze settlement construction and beat a path back to political negotiations. Instead, Mr Zinni's mission was dominated by Israel's public-relations coup: its seizure off its Red Sea coast of a ship, the *Karine-A*, laden with 50 tonnes of arms.

Israel claimed to have “incontrovertible evidence” that the weapons (including Katyusha rockets, as used by Lebanon's Hizbullah forces in their long war with Israel) were supplied by Iran, that the vessel was owned and partially crewed by the Palestinian Authority (PA) naval police, and that the operation had Mr Arafat's “direct approval”. Mr Arafat denied all charges, though he did admit to Mr Zinni that “there are things [within the PA] that take place outside my realm of jurisdiction”. Under prodding from the European Union, he ordered an investigation into the ship's provenance, promising to bring to justice any Palestinian connected with it.

It was a wise move. Wheeled out for the media, the ship's captain, an officer in the PA navy and veteran activist in Mr Arafat's Fatah, said that the arms shipment had been arranged by the PA's representative in Greece. “It is my people's right to defend themselves,” he said. But he doubted if the “leadership” knew of the cargo.

The suggestion was that freelance trading was behind the affair. At first, the Americans appeared to accept that version. But, after a briefing by Israeli intelligence, American officials said that the case was “compelling” that senior Palestinians, including Mr Arafat, were involved.

The Hamas attack and the discovery of the ship are both huge embarrassments for Mr Arafat, wrecking

the success he has had in imposing a ceasefire on the Palestinian militias. This success was due partly to strong-arm methods. He authorised his security forces to arrest any Palestinians who breached the ceasefire edict-though he did not bow to Israeli and American demands that he retroactively arrest those “wanted” for attacks prior to the ceasefire.

But the main reason for the calm was that the various groups appeared to agree to its necessity. Mr Arafat first got his own Fatah militia behind the ceasefire, and then got Fatah to convince the Islamists that the survival of his leadership and regime was in the interest of all Palestinians. All this now lies in tatters. Mr Arafat once more faces the desperate choice of either violently challenging his Islamist dissidents or being stunned by the military solutions Israel has in store for him.

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Iranian politics and corruption

A new way to squeeze reformists

Jan 10th 2002 | TEHRAN
From The Economist print edition

Iran's conservatives discover a link between reform and dirt

Get article background

AP

IF IT were conducted in good faith, Iranians would welcome the anti-corruption drive, ordered last year by Ayatollah Ali Khamenei, their supreme leader. Venality in public life is all too frequent: the cumbersome bureaucracy, itself vulnerable to predatory supervisors, reeks of it. But the campaign's political content, aimed largely at Iran's reform-minded parliament, overwhelms the good it might do.

Reformists say, to conservative denials, that the campaign is being conducted by a notorious anti-liberal judge called Mohsen Ejei. Whoever they answer to, judicial investigators have interviewed a large number of people on both sides of the political divide, but their most significant catch, so far, is Shahram Jazayeri, a well-connected businessman who is soon to stand trial on loosely-specified corruption charges. Most people expect Mr Jazayeri to name names; according to *Keyhan*, the judges' favourite newspaper, 60 deputies, mostly reformists, may be implicated in related financial scandals.

The anti-corruption campaign has coincided with the sentencing to prison, in apparent violation of their parliamentary immunity, of three reformist deputies. With the reformist press subdued by the closure of dozens of lively publications and the jailing of journalists, parliament offers a lone voice of resistance to conservative hegemony. In a closed session last month, parliamentarians spoke bluntly of the regime's failings, and the faults of those at the top of it. Some reformists have dirt of their own to dish, which might stick to senior establishment figures.

Parliament has also been attacked, from a different direction, with a spurt of vetoes from the Council of Guardians, an appointed upper house that uses its power of veto to paralyse legislation. Laws that the council recently blocked range from a crucial foreign-investment bill to a convention on shipping with Slovenia. The council may also decide to block the budget President Muhammad Khatami presented last month, even though one of the budget proposals—to end the disbursement of discounted foreign currency to privileged institutions—would itself strike a blow against corruption.

Reformist deputies are spurred on by rumours that the council may have decided to disqualify scores of them from standing for re-election in 2004. They argue that if they delay in reacting to allegations of sleaze, Iranians will come to regard the mud-slinging less as a struggle between freedom and authoritarianism and more as a feud between greedy politicians.

There is a gap, however, between uttering fierce words offstage and making the show of defiance that an increasing number now favour. A mass resignation of deputies, or calling for a referendum on the powers enjoyed by unelected institutions and people, would bridge the gap, and take Iran's politics into uncharted territory. But nobody has any illusion about the vigour of the conservative response to such a challenge.

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Trading in bushmeat

Africa's vanishing apes

Jan 10th 2002 | MESSOK, CAMEROON
From The Economist print edition

A disastrous partnership of loggers and hunters in the Congo basin

A SUDDEN shower pierces Cameroon's rainforest, disrupting the hunters' lunch. Into the embers goes a gorilla's skull, picked clean; a smoked hand is pocketed for later. The rest of the animal, a prime silverback, has already been freighted out of the forest along a logging road through a nearby concession. The partnership between loggers and hunters has turned traditional hunting grounds into killing fields throughout the Congo basin: Congo, Congo-Brazzaville, Gabon and Equatorial Guinea as well as Cameroon. In as little as ten years, conservationists say, the world's second-biggest tropical forest could be emptied of large mammals; and Africa's great apes—gorillas, chimpanzees and bonobos—could become extinct.

Bushmeat trading is banned in Cameroon, as is hunting in the six-month off-season, or with locally-made guns and cable-snares at any time. Yet up to 90 tonnes of meat arrive at Yaoundé's four bushmeat markets each month. Protected species account for only about 5% of the total but are highly-prized, with elephant and gorilla fetching twice the price of pork or beef.

Forest-dwelling Cameroonians have always eaten ape, or almost anything else, to survive. What is new is the urban population's reawakened appetite for bushmeat since European loggers began constructing roads deep into the rainforest. Loggers traditionally have little time for law enforcement. According to Global Witness, an environmental watchdog, illegal logging is rife and corruption endemic. Some companies actively encourage illegal hunting in order to feed their workforce.

Cameroon's lack of interest in wildlife management goes deep. Bushmeat is served up at state functions: local officials might feel snubbed if served anything less than gorilla stew. For the rural poor struggling on less than $2 a day, the bushmeat trade is an important source of income. A large gorilla can earn the hunter $60, a chimp, $35. According to one estimate, 800 gorillas are poached in the south-eastern corner of Cameroon every year.

A string of international initiatives has tried to tackle the bushmeat crisis. But all have foundered on Cameroon's indifference, and the reluctance of outsiders to press their point home with economic incentives and penalties. The 1999 Yaoundé summit, organised by the Worldwide Fund for Nature, produced a series of empty promises from regional leaders. An alliance between the fund and the World Bank sought to raise the profile of conservation issues and the bank has allotted $55m to cleaning up Cameroon's forests. But a rather gentle, coaxing approach to Cameroon's Ministry of Environment and Forestry (Minef), which is responsible for both conservation and exploitation, has had little impact on law enforcement, and so no effect on the numbers of protected species being eaten.

The European Union has made equally toothless appeals. The EU is, in fact, as prey to conflicting interests as Minef: it has improved some 2,000km (1,250 miles) of roads in Cameroon for the benefit of the European, mostly French, logging firms that control more than 70% of the industry. “Nowhere has the conflict between EU-financed forest conservation projects and EU development programmes been as marked as in the tropical forests of Cameroon,” remarks one ecologist.

Regulating the loggers would be a start. By law, logging is restricted to 2,500 hectares (6,200 acres) a year on any concession. If enforced, this restriction would prevent vast tracts of forest being opened to hunters, and allow animals to move safely out of logged areas. But the law is often ignored, with some

loggers reported to have emptied entire concessions, given for 33 years, of their most valuable tropical hardwoods within the initial three-year trial period. Similar practice elsewhere in the Congo basin has seen the forest disappear at the rate of 4m hectares a year.

Most conservationists now concede that there is not much hope for Cameroon's wildlife outside the protected areas, which account for about 10% of the forests. Even here the hope is frail. Southern Cameroon's vast Dja reserve is a Unesco World Heritage site and World Biosphere reserve. But it is also home to some 100 hunting camps. Guards, paid for by the EU, have had little impact on the poaching—partly because an EU-financed logging road along the reserve's eastern border provides such rapid access to the rainforest.

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Italy and the European Union

A foreign minister goes, but does foreign policy?

Jan 10th 2002 | ROME
From The Economist print edition

No and yes: Italy will remain committed to the EU, but it will fight harder for its national interests

POLITICAL infighting in Italy rarely stops for holidays. As most of the European Union was welcoming the euro in a festive mood (and getting the new notes out of its ATMs with rather more efficiency than Italian banks could manage), Silvio Berlusconi's seven-month-old government was losing one of its most experienced and pro-European ministers, the one in charge of foreign affairs. And the government was sounding more hostile to the European idea than any Italian administration since Italy, one of the six founder members, played host to the signatories of the treaty that created the then European Economic Community 45 years ago.

The outgoing minister, Renato Ruggiero, is a pugnacious Neapolitan with wide international experience as a diplomat, spokesman for the European Commission, foreign-trade minister, director of Fiat, and, until 1999, boss of the World Trade Organisation. He had been increasingly upset by barbs cast against the EU and the euro recently by a clutch of ministers alongside him in Italy's government. On January 5th, he “resigned”.

Mr Ruggiero was never one of Mr Berlusconi's close pals

One sign of trouble came last month, when the government at last made up its mind that Italy would no longer take part in a multinational project to build the costly A400M military Airbus, intended (among other things) to give European forces a heavy-lift aircraft of their very own in place of the American ones they could buy off the shelf. Then, in the approach to last month's EU summit in Belgium, Italy found itself isolated in opposition to plans for an EU-wide arrest warrant. Next, as that row got noisier, Italy's economics and finance minister, Giulio Tremonti, castigated the EU for being undemocratic.

Then, more provocatively still, ministers began to sneer at the euro. The defence minister, Antonio Martino, once an economist, declared that the new currency “may be a flop”, while Umberto Bossi, the belligerent head of the once-separatist Northern League, who is now in charge of reform, said he didn't “give a damn about the euro”. When Mr Ruggiero complained to a newspaper about what he diplomatically called “this lack of enthusiasm”, Mr Bossi denounced him as “a provocateur”. Finally Mr Berlusconi weighed in. “Mr Ruggiero is a technocrat,” he stated. “I'm the one in charge.” That was it. Mr Ruggiero bowed out of government—to the open dismay of an array of his EU counterparts, including his

French and German ones.

To be sure, Mr Ruggiero was never one of Mr Berlusconi's close pals. It was President Carlo Azeglio Ciampi and Fiat's honorary chairman, Gianni Agnelli, two of Italy's grandees, who urged Mr Berlusconi to give Mr Ruggiero the foreign ministry, in the hope of lending Italy a bit of savvy and gravitas on the world stage. Now Mr Berlusconi says he will run the ministry himself for at least six months. “I like the job,” he said as he took it over on Wednesday. “It needs a businessman, an innovator.” Mr Ciampi blenches at the prospect. Mr Agnelli, who helped swing a lot of business people behind Mr Berlusconi, is plainly appalled at the turn of events.

Maybe, but what now?

But will Mr Ruggiero's departure really change Italy's policy towards the EU? Europe “for us is an ideal, an ambition, a necessity”, averred Mr Berlusconi to curb such doubts. And indeed Italy is unlikely, say, to flout the rules of the euro-zone: Mr Tremonti, for instance, says that in order to keep Italy within the prescribed budget-deficit limits, he has already made cuts of *euro*19 billion ($17 billion) in this year's budget. He still hopes the new currency will help revive the euro-zone's flagging economies. What will be new, however, is a much greater readiness to assert Italy's national interests. “Look at the Spaniards,” says another senior minister in private. “They are ferocious when it comes to defending theirs.” By implication, Italy, instead of kowtowing to Brussels, should do likewise. It probably will.

Expect Italy, then, in the next few months, to question many of the EU's policies. Several ministers say that existing EU members should agree on a constitution for the Union before admitting countries from Central Europe to it, and before majority voting is extended. Italy may be less loth to annoy its EU partners—by continuing, for instance, to block agreement on the siting of a planned food safety agency, unless Mr Berlusconi can get it set up in Parma rather than in Helsinki (where the Finns, he said last month, don't even know what *prosciutto* is). And expect Mr Berlusconi, who thinks he has charmed George Bush into a true friendship, to look across the Atlantic rather than to Paris, Berlin or Brussels for inspiration and solidarity.

Since Mr Berlusconi knows little about foreign affairs, he will probably listen a lot more to Mr Tremonti

The prime minister says that in the next six months he will revamp the way the foreign ministry operates. “Ambassadors will also be judged by how much they help Italian exports,” he says. But even his admirers doubt that, at 65, he will have the time or stamina to run the prime minister's office in Palazzo Chigi, in the heart of Rome, as well as the foreign ministry, encased in its vast white Mussolini-era edifice on the edge of the city. Despite his notion of a six-month stint at it, Mr Berlusconi may well be obliged to hand the job over much sooner than that.

In the meantime, since he knows little about foreign affairs, he will probably listen a lot more to Mr Tremonti, who is widely thought to have an eye on the top job if anything should happen to the incumbent. A chubby, bespectacled tax lawyer who has in the past advised Mr Berlusconi in a private capacity, Mr Tremonti is the architect of Italy's new foreign-policy approach, and may now be the most influential man in government. He and Mr Ruggiero disliked each other. In domestic politics, Mr Tremonti was partly responsible for locking the impulsive and populist Mr Bossi, who has been rudest of all the government's ministers about the EU, more securely into Mr Berlusconi's coalition—which the Northern Leaguer destroyed when the right was last in power, briefly, under Mr Berlusconi, in 1994.

“It is unfair to describe me as an anti-European,” says Mr Tremonti. “I am passionately pro-Europe. It's just that I don't belong to the Single European Thought Party.” And the euro? It, he observes without joy, “has been created by technocrats, through enlightened despotism.”

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A Balkan euro-zone

Still a lot of funny money

Jan 10th 2002 | PODGORICA AND PRISTINA
From The Economist print edition

The euro is the new currency in parts of the Balkans. Early results look mixed

WHO said the economy of the southern Balkans was primitive? At an open-air market in Pristina, the concrete jungle from which the UN struggles to administer Kosovo, a load of sand changes hands for a fistful of crisp euro notes. Content with the deal, the elderly buyer plods home in a horse and cart, its red and yellow tassels flutttering in the icy breeze.

For most European states, the right to use the new currency will be (or has been) a hard-won prize, granted only after stringent tests of economic probity. But by an odd twist of fate, the founder members of the euro-zone include two backdoor entrants that are not exactly prize economic pupils. Both are territories that belong at least formally to Yugoslavia, and have spent most of the past decade in the financial wilderness. And both are places where cash is king.

One of these proud euro-zone members is Montenegro, Serbia's junior partner in the Yugoslav federation. The other is Kosovo, notionally a Yugoslav province but in practice an international protectorate. Montenegro adopted the D-mark, with Germany's blessing, in January 2000. And Kosovo's post-war rulers accepted the German currency as the main unit of exchange.

In theory, the switch to the Balkan euro should be an opportunity to smoke out criminal fortunes and pull more savers into the formal economy. In both places, the authorities limited the amount of D-marks people could change for euro notes to DM10,000 (*euro*5,100, or $4,550) per transaction. For anything larger you had to open a bank account. In Kosovo, the results were spectacular: over 100,000 new accounts were opened last month, compared with 1,000 in the previous 11 months, and more than DM1 billion has been deposited since January 2nd. An impressive vote of confidence, then, for the seven local banks licensed to deal in euros.

Montenegrins, by contrast, were unimpressed by assurances that their “under-the-mattress” savings—estimated by the central bank at DM200m, and five times as much by some economists—could now be taken to the bank without fear of hard questions. Only a few million D-marks have been lodged in banks, but the price of property has risen as people have converted their German cash into bricks and mortar. It is a mystery where the full D-mark savings of Montenegro's 650,000 citizens have ended up: much of them, perhaps, in the relative anonymity of Italy. Street-wise Montenegrins believe their local fat cats off-loaded their D-marks some time ago—and they expect some of this money to return as “foreign” investment.

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Germany's centre-right opposition

Who will lead it into battle?

Jan 10th 2002 | FRANKFURT
From The Economist print edition

The opposition's candidate for chancellor is about to be anointed

AP

Merkel, Stoiber and a posy of discord

IN A few days, Germany's chancellor, Gerhard Schröder, will know the name of his challenger in September's general election. Of the two possibilities, the latest omens give the edge to Edmund Stoiber, premier of Bavaria and leader of its conservatives, the Christian Social Union.

Usually, the conservatives' standard-bearer comes from the CSU's big sister in the other German states, the Christian Democratic Union (CDU). The only previous CSU contender, Franz Josef Strauss, stood (and lost) 22 years ago. Last weekend Mr Stoiber said he was ready to stand. But so did the CDU chairman, Angela Merkel. The plan is for the two to meet, after party conclaves this week, and settle between themselves who is to have the honour.

Though she is by no means out of the race, Mrs Merkel's chances seem to be dipping. On January 8th the top brass in Mr Stoiber's party publicly urged their man on, and called on the Christian Democrats too to back him. In contrast, among the CDU sturdies, who were due to meet on January 11th and 12th, several, including at least three state premiers, prefer Mr Stoiber to their own leader; so does Friedrich Merz, who heads the combined conservative group in parliament. He welcomed the Bavarians' backing for their own man.

Why not Mrs Merkel? Though tougher than she looks, she has a frumpy image. Her party has still not fully recovered from a financial scandal two years ago. In Munich, meanwhile, Mr Stoiber has ruled unchallenged over an increasingly prosperous state. With Germany's economy shrinking and unemployment almost 4m, say his party's bigwigs, his reputation for economic competence will win votes. Neither hopeful can match Mr Schröder's popularity, but Mr Stoiber comes closer. In a straight fight, says a recent poll, Mr Schröder would flay Mrs Merkel by 22 percentage points. Against Mr Stoiber, the gap would narrow to 14.

Whoever is candidate, the two party leaders would have to decide how to work together. That will be especially hard if Mr Stoiber stands and wins the chancellorship. What would Mrs Merkel then do? A cabinet post, however senior, might belittle her. President of Germany, then, suggest some. Hmm. The job will not be open until 2004, when she will still be only 49, a little young for a figurehead.

Before all that, Mr Schröder has to be beaten. A few months ago, the task looked hopeless, and Mr Stoiber was planning to stay in Munich to avoid repeating a Strauss-like humiliation. These days the economy's weakness is hurting the chancellor, and a few voters may take against his Social Democratic Party for forming a coalition with ex-communists in Berlin's state government. Opinion polls show the conservatives within touching distance of the Social Democrats, despite the chancellor's high personal ratings. That said, Mr Schröder remains favourite, and soon he will have a target for his fire.

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Health care in France

Under a financial anaesthetic

Jan 10th 2002 | PARIS
From The Economist print edition

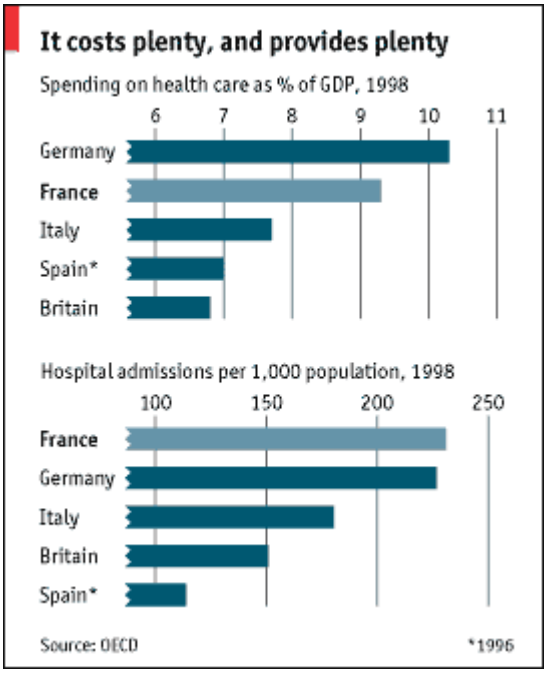
The care is fine. The way patients pay for it is too pain-free by half

TO THIS nation of hypochondriacs, a strike by France's 55,000 family doctors is a serious matter, for politicians as for patients. National elections are only months away. And here are the doctors downing stethoscopes for a 15% rise, to *euro*20 ($17.80) in their fee for a consultation and 46%, to *euro*30, for home visits.

They have been sitting on their hands in various ways, notably by refusing to be on overnight call, since mid-November. Over the year-end holidays they increased the pressure, transferring their load to already-grumbling hospital workers and emergency services. Now the doctors' unions are calling for a national “day without the doctor” on January 23rd.

It may not happen. Elisabeth Guigou, whose huge employment and solidarity ministry is responsible for health care, has denounced the doctors' demands as excessive, but the betting is that the government will give way: as negotiations resumed this week, several of Mrs Guigou's colleagues were already breaking ranks.

If France wants its medical students to go on to become family doctors, that may be wise. Some 70% of today's family doctors are aged 45 or more. They average 58 hours of work a week, and almost a third are on call on Sundays. In a normal year each one holds more than 3,700 consultations, makes over 1,100 home visits—and earns, after expenses, about *euro*51,000. Mrs Guigou's calculation that their demands would add *euro*1.2 billion to France's annual social-security bill leaves them unmoved.



Arguably, France's voters would not worry either, at least in the short term. The World Health Organisation rates France's health-care system first among the 191 countries in its latest survey: not bad, given that France spends a bit under 10% of GDP on health, whereas the United States spends almost 13% and comes 37th.

And that 10% is not easily noticed by most voters: though the average household spends a fifth of its gross income on health, the lion's share of the fee paid to the doctor is met by the state insurance system and the rest, entirely or very largely, by supplementary private-sector insurance provided by employers and financed through payroll deductions. For the poor and unemployed, health cover has been free since January 2000. In return, the public get a service which the press—fairly enough—contrasts favourably with the horrors of Britain's national health service, enjoying unhurried consultations, and home visits at weekends, for instance.

So why bother about a little extra cost? Alas, experts have to. Predictably, pain-free financing means that to most French patients the cost of their treatment is irrelevant, while they lead the world in the number of times they go into hospital, and swallow more pills than any other nation on earth, bar the Japanese. France has 23,000 pharmacies; Britain, with virtually the same population, has about 12,000. The result is that the share of GDP going into health care has risen by more than a quarter over the past 20 years, despite cost-cutting measures (some later annulled as unconstitutional) by the conservative government

in 1996.

And there is worse to come. Already, Alzheimer's and other diseases of old age account for some 70% of health-care reimbursements. And it is a demographic near-certainty that in the next 20 years the number of French people aged 75 or over will rise by nearly half, to around 6m. One day some government will have to reform the system, whatever the political risks.

It could start today, of course, by simplifying the paperwork (the state's administration body for the health sector has to follow 15,000 statutory texts), and by rejigging health-care prices. At the moment, for example, a straightforward colonoscopy, requiring a couple of hours in a clinic, is priced at two-thirds the rate of a full-scale splenectomy requiring 20 days of post-operative care. Or why not campaign for the French, especially men, to smoke and drink less? France's women enjoy the world's highest life expectancy after those of Japan and Switzerland; its men come only tenth, victims, the government says, of cigarettes, booze, bad driving and an above-average incidence of AIDS.

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French culture

Messier and messier

Jan 10th 2002
From The Economist print edition

Seducing Hollywood still seems to mean enraging the French film industry

IT WAS a throwaway line, born of impatience and intended for American ears. Little did Jean-Marie Messier, head of a French media giant, Vivendi Universal, and currently the best-known French businessman in America, realise what he was stirring up last month when he declared that “the Franco-French cultural exception is dead”—in plain American, that French culture is (a) very special and (b) entitled to special protection. But unwittingly he has reignited a fierce debate in France—and also exposed the delicacy of French commercial expansion in the cultural field.

Mr Messier's proclamation was made at a New York press conference where he had gone to celebrate his purchase of yet another chunk of the American media. Having already swallowed Universal Studios, this time he had snapped up the entertainment assets of USA Networks, and put a Hollywood veteran in charge of the lot. Given that Vivendi also owns Canal Plus, which finances much of the French film industry, did this not herald the “Americanisation of French cinema?” asked a French journalist. Caught off-guard, Mr Messier snapped back, calling the question itself “archaic”.

He should have known better. The outpouring of French indignation, which began instantly, has not let up. “Culture is not a tradable good,” opined Jérôme Clément, head of Arte France, a television company, in the pages of *Le Monde*: “It is a precious good, our soul.” “Go and learn their gospel, that of a sacred dominant cultural exception, the American one,” snorted Michel Thoulouze, a former executive at Canal Plus. French state support for its music and film, the very notion that French culture was special, was in peril. Politicians from left and right rushed in.

The oddity is that the row comes at a time when French films, many of them more accessible than the art-house product that English-speakers tend to imagine are the French studios' only output, are standing their ground against the perceived invasion from Hollywood. In 2001, when the total number of cinema admissions in France was up 11% on the previous year, over two-fifths of those tickets were for French films, up from 29% in 2000, and the highest proportion for 16 years. Four of last year's top five box-office successes were French, led by a quirky romantic comedy, “Amélie”.

Indeed, it was precisely this resurgence of national culture, argued Mr Messier in *Le Figaro* on January 4th, that Vivendi has supported. His original remarks, he wrote, had been grossly distorted. Though his tone might have been “a bit sharp”, he admitted, what he had meant was that he was in favour of “cultural diversity”. And of course he approved of state subsidy to ensure it: “Vivendi Universal is not the ministry of culture,” he said.

However Mr Messier tries to spin it, this will not be the last time he lands himself in trouble with the guardians of French culture and cultural protectionism. For he is a peculiarly potent new symbol of an ancient cultural battle. Reared in the most traditional of French institutions, including both the Ecole Polytechnique and the Ecole Nationale d'Administration, he has in recent years transformed a one-time sewerage and water-supply firm founded in 1853, the Compagnie Générale des Eaux, into a glamorous Hollywood outfit. He has also bought a swanky apartment on New York's Park Avenue, and moved there with his family. For the purposes of running his burgeoning company, this is straightforward and logical. In the context of French cultural sensitivities, it is bound to look like betrayal.

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Spanish universities

Hustle breeds hostility

Jan 10th 2002 | MADRID
From The Economist print edition

Plans for university reform have aroused wide opposition

AP

The university law, as students say it

THE sight of thousands of angry students marching in Madrid, Santiago de Compostela, Barcelona and other university cities, or camping in the Christmas cold in the heart of Seville, would once have gladdened the heart of Pilar del Castillo, Spain's education minister, a rebellious student herself under Franco's regime. But her plans for university reform have alienated Spain's 1.65m students, academics and other university staff alike.

The plans, pushed into law on December 20th, started to take effect this week. But further protests lie ahead, and some regional governments, of various political hues, have joined in.

Ms del Castillo's aim is to improve the quality of the universities and the way they are administered, while devolving more responsibility for them to the regions. They will gain some freedoms. For instance, the national selection exam for admissions will end in 2004, leaving each university free to use whatever procedures it chooses. But the present cliquey system of patronage and internal promotion will be opened up. Instead of narrow electoral colleges to pick rectors, all members of the teaching staff, students and administrators will have a say, though tenured academics will retain an overall majority in the vote, each university deciding for itself how much weight to give the other voters.

Would-be teaching staff will face national tests to join a pool from which universities will have to choose. In public universities—48 out of Spain's 66, and accounting for over 90% of the students—up to 49% of teaching posts (against today's limit of 30%) will not carry tenure; and non-tenured staff will now be more tightly vetted than in the past. A new body reporting to central and regional governments will monitor standards.

The new law recognises the realities of private-sector education. Four well-known church-run universities, given full rights after a deal in 1962 with the Vatican, will remain exempt from a 1991 law requiring new universities to get authorisation from regional governments if, say, they want to expand. And an existing board of public-sector (and church) rectors, plus parliamentary and regional representatives, which approves curriculums, advises on legislation and so on, will be formally expanded to include the rectors of sundry newer private universities—some lay, some more-or-less clerical—which now have only an informal voice.

Critics say the new law is too kind to private and religious universities, but above all that it curtails academic independence in favour of more official control. Students claim they will have less say in how things are run. Unsurprisingly, some have added capitalism, globalisation and other familiar bogeys to their list of grievances.

All these complaints are questionable. But certainly the law was rushed through without being explained properly to those affected. That sort of haste has been a leitmotif of Jose Maria Aznar's ambitious second term as prime minister. In 1996-2000, without an overall majority in parliament, he had to negotiate with other parties. Now, even without the Catalan nationalists who usually help it, his People's Party can carry the day unaided. The result is that well-intended pieces of legislation have been less thoroughly prepared than they should have been, and have met more obstacles than they deserved.

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Charlemagne

Europe's forgotten president

Jan 10th 2002
From The Economist print edition

Why it matters who runs the European Parliament

WHAT if the European Parliament elects a new president and nobody notices? That, sadly, may be exactly what happens on January 15th when its members meet in Strasbourg to choose one. In theory, the contest should have all the elements of high political drama: a close contest, the possibility of several ballots, back-stabbing, duplicity. But most ordinary Europeans, if they notice the election at all, will still yawn.

The problem is that the European Parliament's president is widely assumed to be the toothless head of a toothless outfit. It says a lot that one of the acclaimed feats of Nicole Fontaine, who has had the job for the past two years, is to have persuaded the European Union's 15 national leaders to let her stand next to them in the group photograph at EU summits. Despite its two grandiose buildings, in Brussels and Strasbourg, the parliament is that rare beast, a legislature that cannot actually initiate legislation. It can merely amend or reject draft legislation sent to it by the European Commission or the Council of Ministers.

But for all that, the parliament's caricature as toothless has become false. Much of the new legislation affecting European businesses and consumers is decided at a European level and the parliament is crucial in shaping the laws that emerge. Recently, a directive to create a pan-European law for corporate takeovers fell at the last hurdle in a vote in the European Parliament. Efforts to establish a single market for financial services will be made or broken in the parliament over the next few months. It has also pushed through a torrent of legislation, from rules on consulting employees when companies restructure to the levels of noise and vibration in factories. You doubt the importance of the parliament's work? Then look at the hordes of lobbyists thronging its corridors.

The president's role in shaping all this law-making is ambiguous. With a personal staff twice as big as that of the head of the European Commission, the European Parliament's president risks looking like a puffed-up nonentity. Mrs Fontaine has been criticised for concentrating on the ceremonial bit of the job, “rushing around shaking hands with kings, queens and presidents”, sniffs Jens-Peter Bonde, a Danish Eurosceptic running for her job next week. Still, the president does have some big powers. By working with the commission and the heads of the big political groups, he can decide what issues get voted on, and when. Even more important in the long run, an effective president can speak up for an institution yearning to raise its profile and expand its powers.

Mr Bonde, Gerard Onesta, a French Green, and Francis Wurtz, a French Communist, all want the job.

But, to French chagrin, the choice will come down to two English-speakers: David Martin, a Scot backed by the Socialist group, and Pat Cox, an Irish liberal backed by a coalition of his own Liberal Democrats and the European People's Party, a conservative block that is the parliament's largest. The arithmetic favours Mr Cox, but a ragbag of Greens, Eurosceptics and communists may have the swing vote.

Cox or Box?

Cynics will dismiss the vote as a choice between Tweedledum and Tweedledee, a pair of 40-something Celts in suits, with similar ideas about making the parliament's work more open, streamlined and generally fascinating. Both say they will stop the scandalous abuse of expenses. Both say meetings between the parliament's president and heads of Europe's governments should be less ceremonial, more concerned with law-making. Both cautiously favour strengthening the parliament's powers.

But the notion that the two politicians are interchangeable does not survive meeting them. Mr Cox, a former television presenter, is loquacious and intellectual, a fastidious dresser with a taste for outsized cufflinks, who spatters his conversation equally with French phrases and Anglo-Saxon oaths. He adores politics and deal-making. His highest term of praise is to call a solution “elegant”. He would give the parliament more publicity. Indeed, his aides mutter that, since Romano Prodi speaks so ineffectually for the commission, Mr Cox might have a fair shot at becoming the EU's livelier public face.

Whereas a Cox presidency would be high on elegant deal-making, a Martin one would stress fair dealing. Partly because he knows that his best chance of winning lies in rallying independents and mavericks, Mr Martin has been promising to protect the rights of small political groups. This pitch is astute but also reflects Mr Martin's temperament. He is a straightforward, cheerful, monolingual Scot, who has spent 12 years as one of the parliament's vice-presidents and knows intimately how it works. After a dose of Mr Cox's eloquence, Mr Martin's more succinct style can be something of a relief. It is a safe bet that meetings chaired by him would be less exciting but shorter than those run by Mr Cox. Still, Mr Martin has managed to enliven dull bits of legislation with pithy sound-bites: a directive on blood products is the “Dracula directive”, a measure on food additives is the “breakfast directive”.

The vote for president is unlikely to bring huge headlines. But it comes at a crucial time for the parliament, which has won more clout in the past decade without becoming much more noticeable. Convinced federalists still think it is the only institution that can redress the EU's infamous “democratic deficit”, with the Union's growing powers resting on a flimsy democratic foundation. Others argue that a European Parliament can never make the Union democratic, because the average voter will always relate far more to his national political institutions.

Six weeks after Mr Cox or Mr Martin is elected, these questions will begin to be thrashed out in the EU's forthcoming constitutional convention. With the debate on Europe in flux, this might be just the moment when it actually matters who presides over Europe's parliament.

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Drugs

Bad score

Jan 10th 2002
From The Economist print edition

Guardian

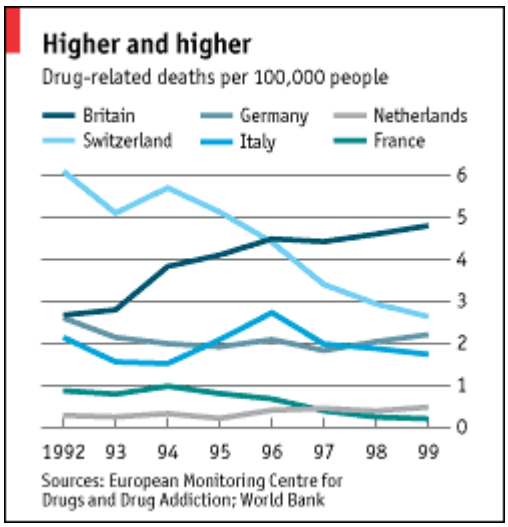
Britain now has by far the worst drug problem in Western Europe, which is why it is moving towards adopting a radical form of treating addiction

Get article background

UNTIL very recently, ministers would not discuss reforming Britain's hard-line anti-drug policies. No matter that Britain's record was among the worst in Europe in terms of users of hard drugs and deaths from overdoses. To be seen to be tough was a political imperative. But things are changing.

More people in Britain use hard drugs than in any other European country. Addicts are getting younger and younger—which is not the case elsewhere. Death rates, mainly from overdoses, are high and rising in Britain (see chart). In most other European countries they are stable or falling. Francis Wilkinson, a former chief constable of Gwent, says that Britain now has “the most rampant heroin problem in the western world”.

Addicts spend an average £16,500 a year on drugs. More than 80% of this is financed by crime, mainly mugging, burglary, robbery, shoplifting and car theft. About two-thirds of all those who are arrested test positive for drugs and almost one-third test positive for heroin or cocaine. A group of 1,000 drug users were found to have been responsible for 75,000 crimes over a three-month period.



High levels of drug use are thus a direct reason why Britain has such a large prison population. Britain imprisons a higher proportion of its people than anywhere else in Western Europe except Portugal. Transform, a drugs lobby group, calculates that drugs cost the government £10 billion ($14.5 billion) a year partly because of the burden on prisons.

Much of the pressure for reform comes from the police. They are fed up with fighting what they see as an unwinnable battle. Richard Brunstrom, the chief constable of North Wales, has called for a Royal Commission to consider wholesale liberalisation. Commander Brian Paddick of the Metropolitan Police recently told Parliament's home affairs committee that arresting suspects for possession of ecstasy was “a waste of valuable

resources”.

Late last year, the home secretary, David Blunkett, announced that he intends to treat possession of cannabis merely as an administrative offence. More serious criminal penalties would remain for dealing and supply, but those caught simply with enough for their own use would no longer be arrested.

Now Mr Blunkett is softening the line on treating heroin addicts. Most are given methadone—a drug which has a mixed record in curing addiction among the most chaotic and alienated. Experience elsewhere suggests that the best way of treating this group is with heroin: addicts given the drug are less likely to commit crimes or to die from adulterated supplies, and can wean themselves off if they want to.

For the past decade, Switzerland has been running a trial prescribing heroin to 1,000 addicts. The results have been impressive. Less than a third of those involved have dropped out, crime has fallen and most have found jobs. Current rules make it hard for British doctors to give addicts heroin, and Mr Blunkett has called for greater powers for them to prescribe what they think is right.

Parliament's home affairs committee, which is inquiring into drug policy, intends to press the government to go much further. The committee, chaired by a Labour radical, Chris Mullin, MP for Sunderland South, will publish a report later this year which is likely to call for a large-scale national trial of heroin prescribing. It is also expected to recommend that ecstasy should be downgraded from a Class A to a Class B drug with much reduced penalties.

In a recent study for the Centre for Reform, Mr Wilkinson, the former policeman, argues for widespread legal prescription of heroin: “The only way to reduce the problem is to supply heroin officially to users in a way that will minimise leakage.” That means officially-sanctioned injection rooms where addicts can “shoot up” under controlled circumstances. The Swiss treatment regime is not cheap; but, as Britain has found to its cost, not treating people is more expensive still.

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Black pupils

We don't need no education

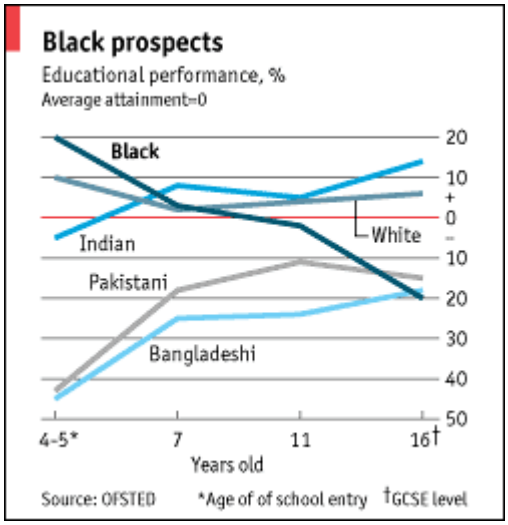
Jan 10th 2002
From The Economist print edition

Why do black pupils do so badly in school?

“I THINK we do tend...to see a black boy and think they are going to be trouble.” Thus confessed an unusually honest (and anonymous) teacher to a researcher from the Commission for Racial Equality inquiring into why so many more black pupils are excluded from schools than whites.

This sort of attitude, says Diane Abbott, a Labour MP, goes a long way towards explaining why black boys still do so much worse than other groups at school. She suggests bringing more male and black teachers into primary schools. They would, she maintains, act as firmer role models than white women, who tend to see every young black as a “miniature gangster rapper” in the making.

The problem is not just that blacks do worse than other groups in school, but that the more schooling they get, the worse they do. In 1998, researchers for the schools inspectorate Ofsted looked at the educational attainment of pupils from different ethnic backgrounds. Their research showed that African-Caribbean pupils entered compulsory schooling as the highest-achieving ethnic group, but left as the group least likely to attain five high grade GCSES (see chart).



The government says that the gap in attainment between blacks and other pupils has in fact been narrowing over the past two years. But by lumping the boys together with the higher-achieving girls, it disguises the continuing problem with the boys. In Birmingham, which has the highest proportion of ethnic minority pupils in the country, the gap for black boys remains as wide as ever, in contrast to improvements made by boys of Bangladeshi and Pakistani origin.

The left blames the gap on “institutional racism” in schools. Others argue that the macho, street culture of black youth is inherently anti-learning. Even Ms Abbott admits that black boys “simply do not see reading or educational achievement as masculine or cool”.

This may be partly because there are so few black teachers as role models in schools. In Birmingham, for instance, 43% of its 170,000 schoolchildren are from ethnic minorities, with 7% African-Caribbean. But in 1999, the last year for which figures are available, only 7.7% of the teachers were from ethnic minorities.

Getting more black teachers may be a good idea, but the experts agree that gender makes little difference. Audrey Osler, an academic at Leicester University, who has studied the impact of male and female teachers on the classroom, concludes that “female teachers, black and white, can maintain discipline; it is not a question of gender.”

One reason why blacks do badly is that so many of them get excluded. This week, Ms Osler published research showing that black girls are four times more likely to be excluded from school than white girls. Official figures show that black boys are three times more likely to be excluded than white boys, but Ms Osler argues that the real figure is much higher.

Exclusion disrupts a pupil's educational career and alienates the teachers. Educationalists argue that reducing black school exclusions is the key to improving their educational performance. Which comes straight back to the anti-learning culture, and the reasons why they are excluded in the first place.

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Anti-terrorism

The bird has flown

Jan 10th 2002
From The Economist print edition

One of the main targets of the anti-terrorism laws has, so far, escaped them

AS THE hunt for Osama bin Laden and Mullah Omar continues, Britain has its own Muslim cleric who has apparently gone into hiding. The day after Parliament passed emergency anti-terrorist legislation, the man dubbed al-Qaeda's spiritual leader in Europe fled from his home in Acton in West London in his beige Mitsubishi people-carrier, leaving Britain's security services scratching their heads. Earlier this week, police searched his home; but his whereabouts remain unknown.

Even after September 11th, few Islamists can notch up an array of enemies as large as that of Omar Mahmoud Othman, alias Abu Qatada. Sentenced to death in absentia in Jordan, the Palestinian refugee stands accused by Algeria, France, Spain and the United States of being a magnet and mentor for the masterminds of September 11th, including Zacarias Moussaoui, who has been charged in America with conspiring in the attacks.

Abu Qatada's followers deny that he has links with Mr bin Laden, but say he has inspired Muslims to *jihad* since he began preaching in Pakistan in 1989. After seeking asylum in Britain in 1993, his Islamic centre in the shadow of the BBC's White City complex became a magnet for exiled veterans of the Afghan, Algerian and Egyptian Islamist movements. In Hamburg, numerous videos of Abu Qatada's preachings were found in the flat used by Mohammed Atta, who led the attacks on America.

The fact that the 40-year-old cleric has slipped so silently away, when he was reported to be the prime suspect on MI5's list for internment, has left observers stunned. Many believe that the new legislation was tailor-made to send him to jail.

The Home Office has declined to comment on his whereabouts, refusing to say whether he is numbered amongst those detained under the new laws. There is much confusion about the detainees, anyway. The Home Office says there are eight. The Islamists say there are 25, who are either minor players in the *jihad* movement, or not much to do with it at all. They include two Algerians, two Egyptians and the Moroccan interpreter of Gareth Pierce, lawyer to some of the suspected terrorists.

And where is Abu Qatada now? Probably still in Britain, according to Islamists. His wife and their four children are still in their Acton flat. She is due to give birth this week, and he has no passport.

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Church of England

At the altar of globalisation

Jan 10th 2002
From The Economist print edition

There's a foreign flavour to the race for the top job in the Church of England

ON JANUARY 8th, George Carey, the Archbishop of Canterbury, announced his retirement after 11 years as head of the Anglican church. Thanks to Britain's archaic and philosophically peculiar union of church and state, Tony Blair gets to choose his successor. Mr Blair, an avowed Christian, is likely to take a greater interest in the appointment than many of his predecessors, and he will also understand how much the job has changed.

In recent years, Buggins's turn has determined who got the job: the post has alternated between representatives of the Anglo-Catholic and evangelical wings of the church. The Anglo-Catholics ("smells and bells") are thought of as traditionalists opposed to the ordination of female and gay priests. Evangelicals claim to be more "progressive", and are usually enthusiasts for "happy clappy" worship. Mr Carey was an evangelical; his predecessor, Robert Runcie, was an Anglo-Catholic; he followed the evangelical Donald Coggan, who followed the highest-church of them all, Michael Ramsey. This alternation kept the two wings of the church happy and doctrinal splits to a minimum.

But since the ordination of the first women priests in 1994, the distinctions between the different wings of the church have become increasingly irrelevant. Many Anglo-Catholics left the church after 1994, and it looked for a time as though the church might split altogether. It is Mr Carey's main achievement that this never happened. In the tradition of messy British compromises, many who still oppose the ordination of women flourish within the church. One such is a front-runner to succeed Mr Carey—Richard Chartres, the bishop of London.

At the same time, the rapid growth in American-style fundamentalist evangelism means that many of the new evangelicals are probably less liberal on many issues than the so-called traditionalists. The old divides have blurred.

Anyway, these squabbles look increasingly parochial. The Archbishop of Canterbury is head not only of the English church, but also of the worldwide Anglican Communion, which at the last count included 70m worshippers, compared with 26m in Britain. In this capacity, he presides over the once-a-decade Lambeth Conference, which brings together Anglican bishops from around the world, including America.

Since the end of the cold war, this part of the job has become more important than it once was. Christians are now allowed to practice in countries where faith was once suppressed. Religious leaders are now welcome in countries where they were once shunned. Looking after the flock abroad is now a large part of the archbishop's job. In recent years, Mr Carey has been globetrotting as his predecessors never did.

The diplomatic side of the job looks even more important since September 11th. If you fear that a clash of civilisations might engulf the globe, appointing somebody who can talk to other religious leaders looks like a priority. The Koran-reading Mr Blair is known to be especially keen on fostering religious harmony.

Given all this, the man who might appeal most to Mr Blair is Michael Nazir-Ali, the Pakistan-born bishop of Rochester. Formerly bishop of Raiwind in Pakistan, he was hand-picked by Mr Runcie to help prepare for the 1988 Lambeth Conference. He has long experience of, and close ties with, Islam. Of the other candidates, Mr Chartres has strong links with the Russian Orthodox and other East European churches. They would count in his favour, though his negative attitude to the idea of female clergy would not. Rowan Williams, the Archbishop of Wales, did his doctorate on Russian Orthodox theology. Whoever gets the job is likely to be a cosmopolitan sort of Christian.

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Political penance

The mark of Cain

Jan 10th 2002
From The Economist print edition

The Conservatives still seem to be atoning for past sins

THE motif of the ruler who passes incognito among his subjects, getting in touch with ordinary people and his own mortal side, is a recurrent one in myth and literature. Think of Henry V on the eve of Agincourt—or, though the prime minister and his wife weren't wearing *burqa*, of the little touch of Tony in the night which graced the British soldiers at Bagram last week. Similarly, pupils at a London school were last week confronted by a mysterious new teacher, accompanied only by a small cadre of journalists and photographers.

The new teacher was Damian Green, the shadow education secretary, who spent three days at a state school, supervising the playgrounds, inspecting uniforms, and even teaching the odd lesson. Likewise, David Willetts, the shadow secretary for work and pensions, will shortly be trekking out to various disadvantaged areas to meet poor people.

But these Tory sojourns among the masses, unlike those of Henry V and Tony Blair, are also part of another well-established tradition, whereby disgraced leaders devote themselves to good causes or embark on pilgrimages in penance. In medieval times, the murder of a bishop or a rival for the throne might be compensated by the foundation of an almshouse or chantry—the medieval equivalent of public services. Alternatively, expiation might mean embarking on a pilgrimage—such as the purgative visits to the continent that several senior Tories have recently made to find out how other Europeans run their public services.

As Mr Willetts says, all this humility is part of the Tories' necessary effort to shed their image as hard-faced men who don't believe in society. But there are two reasons why these stunts might be inadvisable. Despite nearly five years in office with a gargantuan majority, the government still tries to blame its predecessor for its own cock-ups. This risible strategy is given a little credibility when the Tories seem still to be abasing themselves for past sins—just as the party did after its 1997 catastrophe, when it embarked on its much-derided “Listening to Britain” exercise.

That particular pilgrimage provides the other, cautionary reason why senior Tories should be wary about how much listening they do. “Listening to Britain” was orchestrated by the party's then deputy leader, Peter Lilley. Soon after he finished listening, Mr Lilley made a speech about the limits of the free market and the enduring role of the state, which was billed as a renunciation of Thatcherism. He was promptly sacked.

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The House of Lords

Beware of government by the tallest

Jan 10th 2002
From The Economist print edition

Almost nobody in Parliament wants Britain to emulate Swaziland

THE argument for axing the hereditary peers from the House of Lords before deciding who should replace them was always a pragmatic one: reform had been discussed for the best part of a century, but had foundered in pedantic quarrels over its endgame. Therefore, Labour would act first and ask the tricky questions later. When the government finally published its shoddy plans for completing the job at the end of last year, that reasoning looked shakier than ever. It is now beginning to look like a recipe for perpetual limbo.

As debates this week in both houses made clear, the government's blueprint has united Parliament to an unusual degree—by being more unsatisfactory than the slippery solution proposed by the Royal Commission, which Tony Blair established under Lord Wakeham to solve the problem for him, or at least to delay it. In a house of 600 members, the government wants 120 to be elected, 120 to be independents appointed by a commission—and up to 332 to be appointed by the political parties. The hereditaries who survived the cull in 1999 would go. This nifty scheme has dissatisfied even the usually obliging Lord Wakeham; and Labour's former leader in the Lords described it as “seriously undercooked”.

Meanwhile in the Commons, many Tories are coming round to the idea of an elected majority in the Lords. There is speculation that the Tory leadership may come out in favour of a mostly elected house. And, at the last count 122 Labour backbenchers had signed a motion calling for a “wholly or substantially elected” second chamber.

Many Labour MPs are desperate to be rid of the remaining hereditaries, and therefore eager to legislate. But, naively as it turns out, many of them also took the government's loose talk about democratising the Lords at face value. For some on the party's left, abandoning the dream of an elected House of Lords is a concession too far to Blairism. Robin Cook, the leader of the Commons, is known to feel their pain.

One of many subsidiary arguments exercising parliamentarians is over who should appoint the political placemen to the new chamber: the government says the parties should; Lord Wakeham and others disagree. This question is a theological distraction from the real issue of whether there should be any placemen at all. Although there may be good reasons for having some appointed members—who might boast the sort of expertise that career politicians generally lack—the argument against having a much bigger elected element—that it would threaten the pre-eminence of the Commons—is weak.

Of the other countries that have a mixture of elected and appointed members in their second chamber, only Malaysia and Swaziland have more of the latter. As Fiona Mactaggart, a ringleader of the Labour dissent, says, properly democratic reform of the Lords would help the government to make up for its failures in other aspects of constitutional reform—which is, after all, supposed to be one of Tony Blair's principal achievements. Emulating Swaziland is not the path to redemption.

In reply to an MP who last year asked him why, when the current arrangements seemed to be working nicely, the government needed to press on with reform of the House of Lords at all, Mr Cook cited George Bernard Shaw as having once remarked that although government by the country's hundred tallest men might work well, it would not therefore be a good system. After this week's acrimony, ministers may choose to compromise. But it is quite likely that the whole thing will become mired in a vain quest for consensus. Meanwhile, government by the tallest it is.

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The BBC

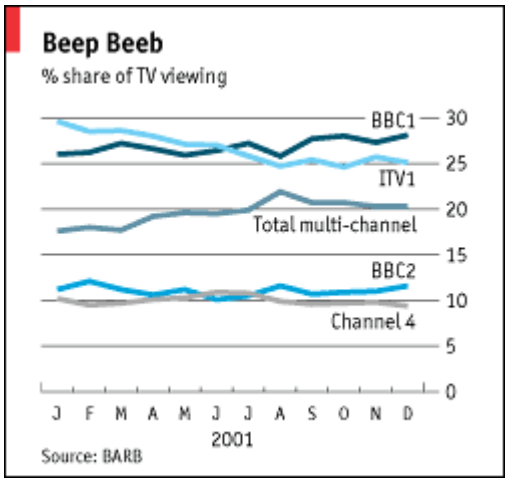
The perils of popularity

Jan 10th 2002
From The Economist print edition

The BBC is winning the ratings war. So why does it need a subsidy?

IT IS easy to see why the BBC is feeling so pleased with itself. In 2001, for the first time since the launch of commercial television in Britain in 1955, BBC1's ratings overtook those of ITV1, the main commercial network broadcaster. Next month, the BBC will launch two of three new digital channels, keeping the state broadcaster on the cutting-edge of the digital television era. And, while the advertising downturn batters its commercial rivals, the corporation's financing is secure thanks to the tax imposed on every television set. “What a way to celebrate the new year!” gushed Lorraine Heggessey, controller of BBC1.

But where the BBC identifies a triumph, others observe an unresolved contradiction. If the BBC is producing popular programmes that can stand up to the unashamedly commercial ITV, then why does it need public money to make them?



Ever since Greg Dyke, the current director-general, arrived in 2000 from commercial television, the corporation has been at pains to insist that it has not succumbed to populism. It has to make some ratings-grabbers, it says, because it has to serve all its licence-fee payers. And its public status enables it to take risks with time and money to make sure that popular can also be good. Certainly, the BBC has aired some popular yet well-crafted and serious programmes recently, such as “The Blue Planet”, whose viewing peaked at 12.1m, or “Walking With Beasts”, which reached 13.99m, both of which were co-financed by Discovery, an American TV company.

Yet there is a nagging sense that these are, as David Liddiment, ITV's director of channels, put it in a controversial speech last year, “fig leaves preserving the decency of a nakedly commercial beast”. Under Mr Dyke, the corporation has also pushed back the evening news to ten o'clock, shoved “Panorama”, its flagship current-affairs programme, into a late Sunday slot, and scheduled an extra weekly episode of its home-grown soap opera, “EastEnders”, to compete head-on with ITV's equivalent, “Coronation Street”. Even BBC2 is stuffed with cookery, gardening and home decoration; and soon, it is rumoured, BBC2 will be screening “The Simpsons” (which it buys from an American network owned by Rupert Murdoch, the bogeyman of the advocates of public service television) five times a week.

Ah, the corporation replies, but the third of its planned new digital channels, to be called BBC4 and to be launched later this year, will be devoted to “culturally enriching programming” of the sort its critics say it no longer makes. To the delight of independent producers, who spent much of last year trying to devise new reality TV shows to satisfy commissioning editors, high-brow stuff is back in demand.

But by launching this new channel, could the BBC end up undermining the case for its own survival? The corporation stresses that BBC4 will “enhance rather than replace” the cultural output on its two terrestrial channels. Yet there will be a growing temptation for schedulers to use it as a parking lot for programmes of minority interest—which in the short term will be available only to those with a pay-TV subscription, or who buy a digital TV-set—clearing the main channels for yet more popular fare. The case then for continuing to subsidise BBC1 and BBC2 in the current way would be weaker than ever.

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Scottish politics

Faded hopes

Jan 10th 2002 | EDINBURGH
From The Economist print edition

Scots have lost their illusions about devolution

THOSE who worry about the state of Britain's political system usually list devolution as a cure for many of its ills. The latest exponent of this view is Anthony Giddens, head of the London School of Economics and guru of Tony Blair's Third Way. In a pamphlet published on January 9th, he argues that the modernisation of Britain should be accelerated by yet more devolution*. But if devolution were the answer to popular dissatisfaction with the political system, the Scots, who have had a devolved parliament since 1999, should be happier about their politics than voters south of the border. They aren't.

According to a new book by a group of academics**, Scotland is just as disillusioned with politics as is the rest of Britain. High hopes that devolution would improve public services and create more jobs rapidly faded. In 1999, 64% of people thought a Scottish Parliament would give Scots more say in the way they were governed; by 2000, 44% did. The percentages expecting it to improve education dropped from 56% to 43%; those expecting a better economy from 43% to 36%.

Part of the reason lies in the Scots' original enthusiasm for devolution. They voted so decisively in favour of it because they thought it would improve public services. It hasn't, so they are disillusioned.

This was why Jack McConnell, Scotland's first minister, announced on January 9th that he was reviewing spending for 2002-05. Unless ministers could show that increased spending would lead directly to improvements in health, education, transport, law and order, and employment, their bids for money would be rejected, he said. Opposition critics jibed that the Scottish Executive was supposed to have been doing just that all along. But Mr McConnell intends to concentrate on the delivery of existing services rather than inventing new ones.

Still, the disenchantment does seem odd, given the goodies which have been handed out to Scottish voters. Scottish students, unlike those in the rest of Britain, no longer have to pay tuition fees at the start of their courses. Old Scots, unlike old people in the rest of Britain, will get help with personal care costs, free central heating and free off-peak bus travel too.

The trouble is that these material changes have been obscured by political controversy. Mr McConnell became first minister last November only because Henry McLeish, his predecessor, was forced to resign amidst a scandal about his office expense claims.

Voters may also be fed up with the fact that politicians have spent so much time on issues that are more about political correctness than about making life better. The abolition of Section 28—a Thatcherite law banning the promotion of homosexuality in schools—and a back-bencher's bill to ban fox-hunting have generated acres of press coverage.

Yet these issues do point up one way in which devolution has made a difference. The House of Lords has no say over Scottish laws. South of the border, the Lords blocked attempts by the House of Commons to abolish Section 28, and will almost certainly do the same to efforts to stop English and Welsh foxhunts. So devolution has made a difference, but not of the sort that warms voters' hearts.

*"Where now for New Labour?" by Anthony Giddens. Fabian Society, London.

**“New Scotland, New Society?” edited by John Curtice, David McCrone, Alison Park and Lindsay Paterson. Polygon at Edinburgh.

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Bagehot

Those neighbourly Tories

Jan 10th 2002
From The Economist print edition

Oliver Letwin's big new idea about crime

POLITICIANS who make themselves look foolish are seldom destined for stardom. Politicians who can make themselves look foolish and still retain your affection may be an exception. Oliver Letwin, the affable ex-philosopher who has taken over from Ann Widdecombe as the Conservative Party's shadow home secretary, falls into this category.

Mr Letwin is accident-prone, but even his accidents have an endearing quality. He was endearingly honest when he told a reporter during last year's general election that, yes, of course the Tories hoped in the long run to make much bigger cuts in public spending than the minimal ones they had owned up to in their manifesto. He was endearingly trusting when, a few days before giving a landmark lecture this week on Conservative crime policy, he allowed a pair of complete strangers supposedly desperate for a pee into his house in the early hours of the morning. He was endearingly brave when, clad in a dressing gown, he pursued one of them through the streets in a bid to recover the wallet and jewellery which the ingrate had nicked. Some newspapers wondered whether this episode showed that Mr Letwin might be stupid, but most had to acknowledge that he is not. As a matter of fact, this former Cambridge philosopher is formidably bright, albeit in an endearing and non-intimidating way. You might call him absent-minded if you did not know that he has also been a sharp-eyed investment banker and an egregiously numerate shadow Treasury spokesman.

This week Mr Letwin, crime victim, gave what was billed as a policy-changing speech on how Conservatives ought nowadays to think about crime. Even this was mildly endearing. Mr Letwin has not speculated in public about the social provenance of the thief he chased through London's darkened streets. But at least, after this speech, he would be entitled to take this man's background into account. Until recently, it was strangely difficult for Tories to do this. Margaret Thatcher, remember, said once (though the quote was ripped out of context) that there was “no such thing as society”. John Major, her successor, wanted to condemn a little more and understand a little less. Michael Howard, Mr Major's home secretary, summed up his own philosophy on crime and punishment in the snappy assertion that “prison works”. The point of such pronouncements was to emphasise the Conservative belief that criminals are responsible for the evil that they do and should not be allowed to blame society for it. New Labour, cunningly (though the endearing Mr Letwin admits it was “brilliant”), tried to have things both ways by being “tough on crime, tough on the causes of crime”.

Mr Letwin still says that criminals are responsible for what they do. But he now wants Conservatives to acknowledge that circumstances—home, parenting, neighbourhood—influence the choices they make. He offers the analogy of a conveyor belt, on which the individual passes through successive stages: neglected child, disruptive pupil, anti-social teenager, young offender, hardened criminal. At each stage the individual has the option of stepping off the conveyor, but cannot be expected to do so unless society finds a way of providing exit points and lending a helping hand. If this fails, the state must step in at the end of the conveyor and put the criminal in prison. In that sense, according to Mr Letwin, Mr Howard was only making a common-sense point when he said that “prison worked”. But before that point, it would be super to find ways—perhaps by encouraging the emergence of what he calls “the neighbourly society”—to convert the future criminal to virtue.

That is a rough summary of a long lecture containing just the right number of non-intimidating allusions to Kant and Aristotle. But you get the point. If people had got the idea that Conservatives thought that there was no such thing as society, they were wrong. Not only is there such a thing, but Conservatives would like to make it more “neighbourly”.

Cut the Kant

Voters who think of politics as a clash between ideas may be disappointed by this lecture. For Mr Letwin has made it hard to see any difference between what Labour and the Tories now think about crime. Mr Letwin claims that Labour takes a “mechanistic” view: if you are poor you will turn to crime. But this is just a caricature. Having emphasised the social conditions that caused crime, New Labour added a promise to be tough all the same on individuals who take to it. Having stressed individual choice, the Tories now admit that some choices are socially influenced. The parties are converging, just as they did when Labour began to admit that private firms and competition might pep up public services, and Tories began to admit that many public services would have for ever to be paid for by taxation.

Still, voters who think of politics as a clash between personalities can only be buoyed by the advent of Mr Letwin. It is hard to think of a politician more interestingly dissimilar to the real home secretary, David Blunkett. Both are clever, but their instincts are miles apart. Mr Letwin is Jewish, cosmopolitan, the donnish son of Anglo-American parents who taught at the London School of Economics and sent their boy to Eton. Mr Blunkett grew up blind, in dreadful Sheffield poverty, the son of a factory foreman who died in a factory accident and whose family did not have enough money to give his grave a headstone. Mr Blunkett was a municipal socialist before converting to the New Labour gospel; Mr Letwin's mother was one of Lady Thatcher's trusted advisers. But adversity has stamped a hardness on Mr Blunkett, whereas Mr Letwin can often sound like one of the “woolly liberals” Labour home secretaries have taken to denouncing. Mr Letwin gave Mr Blunkett a run for his money over the government's draconian terrorism measures. He may have the sharper head, but—endearingly—he may also have the softer heart. Now that would be a real turnaround in British politics.

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Whistleblowing

Peep and weep

Jan 10th 2002
From The Economist print edition

As companies cut costs they cut corners too. Time to blow the whistle?

WHEN Dave (not his real name) decided early last year that his bosses at BP's Alaskan subsidiary were not taking his concerns about the impact of staff cuts on the maintenance of the oil giant's Alaskan pipelines sufficiently seriously, he and two colleagues went and blew the whistle outside BP. They found a ready audience among environmentalists keen to spike BP's ambition to drill for oil in the nearby Arctic National Wildlife Refuge.

The complaints of the BP three led to questions in Congress, a letter to President George Bush giving warning of a "major catastrophe", and an inquiry instigated by BP. The inquiry team's report, leaked in November, found that "many workers" at BP's Alaskan subsidiary (whose self-proclaimed goals are: "no accident, no harm to people and no damage to the environment") believe that "reductions in staffing, training and budget are making field operations less safe." In response to the inquiry, BP has transferred a senior manager, Tom Gray, to implement the report's recommendations. The company says that it has also already taken on additional staff to clear the maintenance backlog.

It has done rather less, though, to ensure that future whistleblowers do not have to go to such lengths to get a response. Dave says he suffered persistent harassment and reprimands for raising his concerns internally. BP says that it is training its supervisors to "respond more positively" to employees' expressions of concern. But it may take more than a training course to persuade rugged oilmen on Alaska's North Slope to change their obstructive ways.

Many potential whistleblowers are deterred by the practice's less than jolly history

Many potential whistleblowers are deterred by the practice's less than jolly history. Few emerge from their experience rewarded in any way. Many lose their job and some their sanity. James Bingham, an assistant treasurer of Xerox who was fired in August 2000 when he complained about the accounting tricks that the copier company was using to boost its flagging earnings, found his subsequent battle with Xerox so all-consuming that he was unable to work and earn a living.

Mr Bingham alleges that the problems at Xerox arose largely because of a culture in which managers were under intense pressure to "stretch" financial targets and then to reach them. Such a culture is by no means unique to the now distressed copier company. Many firms, pushed to reach unrealistic targets in these tighter times, are tempted to massage their numbers too, sometimes within the law but also, on occasions, outside it.

A recent case in Australia shows how easily fear can frustrate a whistleblower's good intentions. In December, a woman wrote anonymously to the country's antitrust watchdog, the ACCC, alleging that her employer was colluding with others in breach of the Trade Practices Act. Her evidence was sufficient to suggest to the ACCC that fines of A$10m ($5.2m) could be imposed on "a large company". But the agency needed more details. So just before Christmas it advertised extensively to try and persuade the woman to come forward again. Some days later her husband rang the ACCC, but he hung up before disclosing vital information. Now the agency is trying to contact the couple again.

In America, there is some evidence that the events of September 11th have made people more public-spirited and more inclined to blow the whistle. The Government Accountability Project, a Washington-

based group, received 27 approaches from potential whistleblowers in the three months before September 11th, and 66 in the three months after. Many of these complaints were about security issues. They included a Federal Aviation Administration employee who claims that the agency has repeatedly failed to respond to known cases of security breaches at airports.

Legislation to give greater protection to people who expose corporate or government shenanigans externally (after having received no satisfaction internally) is being introduced in a number of countries. In America, it focuses on whistleblowers among federal employees. According to Billy Garde, a lawyer who was a member of BP's Alaska inquiry team, they “have less rights than prisoners”. A bill introduced last year by Senator Daniel Akaka to improve protection for them is currently bogged down in congressional committees.

In Britain, the Public Interest Disclosure Act came fully into force last year. Described by one American as “the most far-reaching whistleblower protection in the world”, it treats whistleblowers as witnesses acting in the public interest. This separates them from people who are merely pursuing a personal grievance. But even in Britain, the protection is limited. Rupert Walker, a fund manager, was fired by Govett Investments in September 2001 for expressing concerns in the *Financial Times* about a coterie of investment trusts that invest in each other.

One novel aspect of British law is the responsibility it hands to regulatory agencies. The FSA, Britain's financial-services super-regulator, is setting up a hotline in mid-January, in the hope of deflecting allegations before they indiscriminately hit the public arena. The regulator's role will be that of an informed (and discreet) outsider—a good idea in principle, were it not for the fact that, in practice, the FSA is already spread as thinly as butter on Bridget Jones's bread.

Sir Howard Davies, the FSA's chairman, sees strong whistleblowing mechanisms as a deterrent to fraud. He wants firms to improve their own internal whistleblowing procedures. He said recently that the FSA“won't hesitate to consider making rules” about this “if the guidance we plan to issue in the new year does not lead to the higher standards we want to see.”

In America at least, it is almost always thought cheaper to fire whistleblowers than to listen to them, despite years of legislation designed to achieve the opposite

Sadly, few firms are yet persuaded that such procedures are in their own best interests. In America at least, it is almost always thought cheaper to fire whistleblowers than to listen to them, despite years of legislation designed to achieve the opposite. “No matter how many protections whistleblower laws have created over the years,” says Kris Kolesnik, director of the National Whistleblower Centre in Washington, DC, “the system always seems to defeat them.”

There are a few companies, however, that realise there are benefits in encouraging whistleblowers: for example, Abbey National, a British bank. In 1993, Gary Brown was working in its marketing department when he noticed some fishy things going on. He reported them internally in May 1994, and the man suspected of wrongdoing was suspended. But the atmosphere in the department became so unpleasant that Mr Brown left the company to work elsewhere.

In June 1997, after an inordinately long delay and an eight-month trial, the thief was sent to prison for eight years for his part in stealing £2m ($3.3m). Mr Brown received a commendation from the judge, £25,000 from Abbey National and an invitation to rejoin the bank. Since his return in March 1998, he has been promoted three times. Abbey National now gives its employees regular advice on how to blow the whistle—including the suggestion that they contact Public Concern at Work, a charity manned by lawyers, should they not get satisfaction internally. That is a far more constructive approach than BP's.

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Huntingdon Life Sciences

Hunted-down Life Sciences

Jan 10th 2002
From The Economist print edition

Another victory for bully-boy protesters over legitimate business

ALL sorts of companies are struggling in the current economic slowdown, but few can be quite as beleaguered as Huntingdon Life Sciences (HLS). The British company, which specialises in animal testing for the pharmaceutical and chemical industries, has long been the target of animal-rights extremists, whose violent attacks have frightened both employees and investors. HLS's shares have collapsed since the latest campaign began roughly two years ago, and its British financial backers and brokers, among them Phillips & Drew and Royal Bank of Scotland, have abandoned ship.

Last January Stephens, an American investment bank, threw out a £22m ($33m) lifeline, guaranteeing an existing loan to HLS and taking a 16% stake in the company. This week, however, Stephens said that it would cut its ties to HLS, selling its debt to an undisclosed buyer and divesting its stake.

Stop Huntingdon Animal Cruelty, the action group that led the assault on HLS, is overjoyed. In recent months it had joined forces with American animal-rights activists to pressure Stephens into ditching the company. Now that the campaign has moved across the Atlantic, any hopes that HLS may have had of finding a more sympathetic climate in America (where animal-rights groups have tended to target academic researchers rather than financiers) have been dashed.

As usual, the firm is putting a brave face on things. It still plans to quit the London Stock Exchange and relist in New York as a Maryland-based company at the end of this month, and it has reassured investors that the transferred loan is good until 2006. Indeed, some have argued that, far from succumbing to its animal-rights adversaries, Stephens and HLS have run circles around them: by breaking up the shareholding into pieces of less than 5%, the firm's new investors need not be disclosed under Maryland state law, and thus have a better chance of avoiding harassment. Under a law that the British government hopes to pass in the coming weeks, company directors will no longer have to disclose their addresses publicly.

All this is too late for HLS, but it should better serve those firms next in the firing line. Covance, Quintiles and a handful of other contract-research organisations with operations in Britain and America are just as vulnerable to attack. Pharmaceutical companies, which do their own animal testing, are also on the activists' hit lists. These companies are already facing hard times, what with blockbuster products going off-patent and growing criticism of their pricing policies. The spread of the sort of animal-rights extremism which has made business in Britain so difficult is hardly to be welcomed.

Indeed, few companies can consider themselves immune from activist pressure. Many groups, such as Friends of the Earth and Greenpeace, have become more sophisticated in their tactics, using shareholder resolutions or co-operation with ethical investment funds to try to influence company policy. Some of HLS's opponents have taken this approach a violent step further. In their new war on terrorism, Britain and America would do well to include such assailants in their sights.

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Semiconductors

The chips are up

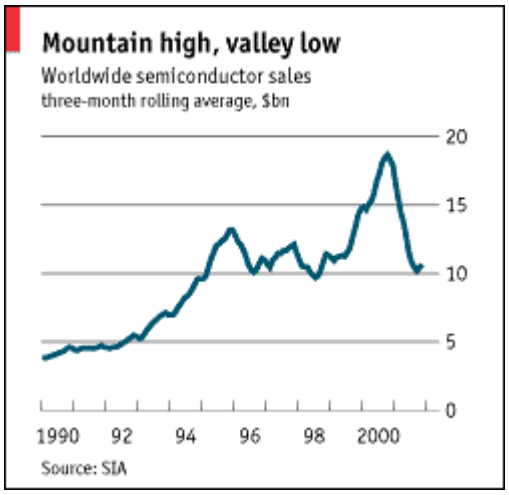
Jan 10th 2002
From The Economist print edition

Chip makers seem to have turned the corner. Will other tech firms follow?

THEY are, to be sure, just a few straws in the wind. But a number of signals suggest that the worldwide semiconductor industry, which experienced the worst sales decline in its history last year, is recovering. This, in turn, may mean that demand for high-tech products that rely on fancy microchips is picking up too. Yet even if the wind may be blowing in the right direction, it is not doing so very hard; it would be unwise to count on a rapid revival of the technology industry's fortunes.

One figure that has been seized on as evidence that the worst is over comes from the Semiconductor Industry Association (SIA), an American trade body. On January 2nd it said that world sales of chips had risen by 1.6% in November to $10.6 billion, the second consecutive monthly rise, after a sharp fall for the first nine months of 2001 (see chart). According to the trade association, the growth in chip sales is being driven by reviving demand for PCs, mobile phones, and consumer and automotive electronics.

Other evidence seems to corroborate this. The price of DRAM chips, which go into PCs, has almost tripled since the start of November, albeit from an all-time low. Hynix, a South Korean chip maker that is being courted by Micron, an American rival, has raised its prices three times in recent weeks. Ulrich Schumacher, the boss of Infineon, a big German chip manufacturer, says his company is also raising prices in response to strong demand.



Do not uncork the champagne just yet, however, advises Andrew Norwood, an analyst at Gartner Dataquest, a market-research firm. He notes that the industry's fortunes had sunk so low that there was little scope for further deterioration. Chip sales traditionally pick up in October and November, as manufacturers build in preparation for the holiday season; whether they actually sell the resulting products is another story. As for the leap in DRAM prices, Mr Norwood thinks this could be the result of speculation. The prospect of a Micron-Hynix tie-up, and other deals, will put chip makers in a stronger position. Buyers may be stocking up now on the assumption that prices will rise further.

Another factor that may have stimulated demand is this week's announcements by Intel and its chief rival, AMD, of powerful new microprocessor chips. Contract manufacturing companies, which build parts for PC makers, became notably more optimistic a few weeks ago, says Mr Norwood, perhaps because PC makers had put in orders for machines that use these new microprocessors. The big test, he says, will be chip sales for January and February.

Despite such caution, however, there is widespread agreement that things have at least stopped getting worse. Even if the sales figures for January and February are down slightly, “the numbers are pretty strong and would indicate a bottom,” says Linley Gwennap of the Linley Group, a consultancy based in California. He expects to see “a fairly strong rebound” by the middle of the year.

Indeed, most observers expect chip sales to grow a bit in 2002, after falling by 31% in 2001. The consensus view is that growth will be about 4% (though some forecasts are as low as 1%, or as high as 21%). This would fit with other scraps of evidence. On January 7th Compaq, a computer maker that is hoping to merge with Hewlett-Packard, announced an unexpected profit for the fourth quarter. And an international survey by Merrill Lynch, an investment bank, found that companies plan to increase

spending on computer equipment by an average of 2.7% this year, after an average decline of 1% in 2001. It is not much to go on, and it will not be a V-shaped bounce. But technology firms have reason to hope that a long, slow recovery is at last under way.

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Consumer electronics

Digital hubbub

Jan 10th 2002 | SAN FRANCISCO
From The Economist print edition

Will media gateways be the next big thing in consumer electronics?

Get article background

EPA

Turning on the iLamp

THE new version of Apple's iMac has already stirred controversy. Some think the computer, which Steve Jobs, Apple's chief executive, unveiled on January 7th, is as revolutionary as the original Macintosh. Its adjustable flat screen, mounted on an arm, has led some to deride it as the "iLamp". But more important than its form is its function. Mr Jobs sees the machine as a "digital hub" for the home, connecting other devices such as video cameras and music players.

The new iMac and its software go some way towards realising this vision. The computer makes digital devices more useful. It lets consumers download lengthy home videos and turn them into shorter films, for instance, or copy their favourite songs to a digital music player.

This makes Apple a pioneer in a much-hyped area of consumer electronics. As the digital world grows, one device will become a "media gateway", connecting everything and distributing content around the home. But Apple is not alone: this week two other companies announced products with similar ambitions at the Consumer Electronics Show in Las Vegas: Moxi Digital, a Silicon Valley start-up, and Microsoft.

Moxi brings together separate devices, including a digital jukebox and broadband modem. Its Media Center can feed up to four TV sets. Microsoft, for its part, presented two new technologies that extend its vision of the PC as the home's electronic nerve-centre.

Other firms, such as TiVo, Thomson Multimedia and Sony, are also working on versions of a media gateway. But it is far from clear that consumers will bite. So far, such "convergence" products have had only limited success. There is no pressing need for them, says Sean Baenen of Odyssey, a market-research firm. Only 3% of American households have all three of an online PC, a digital camera and a handheld computer.

Even if media gateways catch on, it is unlikely that Apple will benefit greatly. That is because its share of the PC market has fallen below 3%—something that neither the new iMac nor the firm's 27 new high-street stores is likely to change. Rather, Apple's best hope is to grow by selling the spokes that link to the digital hub, such as its iPod music player, released last October. Expect an exquisitely designed handheld called iWalk, or perhaps an iCam, to appear soon.

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America's car makers

Feeling blue

Jan 10th 2002
From The Economist print edition

The crisis gripping Ford hung over America's car-industry showcase

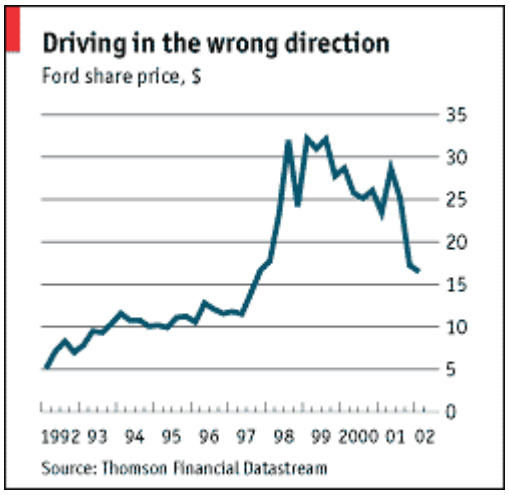
EPA

That's more like it, Mr Ford

MAYBE it was post-traumatic nostalgia, but among the 700 models on display at the Detroit motor show this week, there was one recurrent theme: the return of the station wagon, or something looking a lot like it. They may still be called sport-utility vehicles (SUVs) or crossover vehicles, but an increasing number are morphing back into the shape of the wagons that once defined American suburbia.

These are odd times for the American car industry. General Motors, scared that consumers would stop spending after September's terrorist attacks, launched deep discounts to “Keep America Rolling”. Ford and DaimlerChrysler were forced to follow suit. These incentives helped to push American motor-vehicle sales to 17.2m last year, their second-highest-ever level. But the cost was scary: prices down by 1% all round, and the likelihood that sales will fall this year. Richard Wagoner, GM's chief executive, acknowledges that up to 75% of the extra sales that his company has generated since September were simply pulled forward from the first half of this year.

At least GM, the world's largest car maker, can claim its first full-year market-share gain in three decades. Ford does not even have that to cheer about. In 2000, the world number two made pre-tax profits of $8.2 billion; next week it is expected to report its first annual loss since 1992. Add to that lagging productivity, an image tarnished by a tyre-recall scandal and quality problems (the Escape SUV had to be recalled five times in its first few months). Since William Clay Ford replaced Jacques Nasser as chief executive last autumn, he and the new chief operating officer, Sir Nick Scheele, have been struggling to revive the company.



The turnaround plan that Ford was to announce on January 11th cast a pall over the Detroit show, with industry insiders forecasting job cuts of 20,000 or more. Ford's problems start with its huge overcapacity in America. Last year it sold only 3.7m cars and light trucks there, when its plants were manned to produce 5.7m.

The problems in North America run far deeper than in Europe, where Ford has already faced its demons. Under Sir Nick, Ford of Europe closed five of its 11 plants, with the loss of 30,000 jobs, and managed to break even last year after a $1 billion loss in 2000. Ford executives insist that plant closures are not the best option in the United States. Their thinking may be coloured by Ford's contract with the United Autoworkers union, which all but bars closures until it expires in September 2003. In the meantime, production will merely be trimmed here and there; at the Ranger pick-up plant in Edison, New Jersey, for example, one shift will be eliminated.

The turnaround plan should nevertheless rein in Ford's runaway costs. Some of the sharpest cuts will come among outside contractors, often hired by department managers to add staff without violating company hiring restrictions. Ford bosses now recognise that the system is broken. But past attempts to eliminate regional fiefs—such as the plan by a former chairman, Alex Trotman, to consolidate worldwide operations in the mid-1990s—have not succeeded.

Ford also needs to spruce up its product range. Launches of new vehicles have slipped well behind schedule lately—the replacement Ranger pick-up, for instance, has been delayed by several years. Here, once again, the company's European arm is pointing the way. Ford of Europe is in the middle of a five-year roll-out of 45 vehicles, including a new version of its popular Fiesta hatchback. European market share is rising, as are margins. Although the new vehicles may look different, they share many parts under the skin, reducing development time and costs. Why, asks Sir Nick, should Ford of Europe have 100 separate petrol filler caps? Soon it will have two. North America will undergo similar simplification.

Another idea to be copied from Europe, where factories, such as the one in Valencia in Spain, have been made flexible, is “swing” plants that can switch from making one model to another as demand shifts. In America, where Ford has no such plants, the company will reorganise its assembly lines in Chicago and Dearborn so that they can swing, Valencia-style. But fixing factories and filling the pipeline with enticing products will take at least two years, in Sir Nick's view—and even that may be too optimistic.

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Economist.com BUSINESS
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Haute couture

Out of fashion

Jan 10th 2002 | PARIS
From The Economist print edition

Yves Saint Laurent leaves an industry he helped to change fundamentally

EPA

Something of an anachronism

THE trademark black-framed spectacles could not disguise the fact that Yves Saint Laurent, a French fashion designer who announced his retirement on January 7th after nearly 50 years in the business, looked old and worn-out. The *haute couture* collection that he is to present towards the end of this month will be his last. Fashionistas wept.

After he took over as head designer at Christian Dior in 1957, at the tender age of 21, Mr Saint Laurent enjoyed spectacular success in the top echelons of fashion and designer goods. In recent years, however, he became disillusioned with the business. “High fashion is finished. We are in an era of marketing, not creativity,” complained Pierre Bergé, his longtime partner and business manager, this week.

But the truth is that Mr Saint Laurent had become an anachronism even before 1999, when his business was acquired by François Pinault, owner of the Gucci group and the Pinault Printemps Redoute chain of shops. These days, tight management and cost controls are as important as good design. And fashion houses increasingly use the catwalk to showcase ready-to-wear clothes rather than the one-off items favoured by Mr Saint Laurent.

Ironically, Mr Saint Laurent actively helped to usher in the age of today's big luxury-goods conglomerates. During the 1970s and 1980s his eponymous company and its Rive Gauche brand typified the effort by high-end clothes designers to stamp their pricey labels on to almost anything—Mr Saint Laurent went so far as to license cigarettes bearing his moniker, but apparently balked at rubber tyres.

When he sold out to Mr Pinault, for $900m, he retained only the right to create two *haute couture* collections a year. Gucci took over and revamped the potentially lucrative, but underperforming, ready-to-wear and beauty-products businesses. Mr Saint Laurent became a king without a kingdom.

Although he was too polite to declare it publicly, Mr Saint Laurent made no secret of his disdain for Tom Ford, a market-oriented American who is Gucci's design chief. Even though the Frenchman acknowledged that his expensive one-off dresses were inherently unprofitable, he believed that they were the proper basis of fashion. Gucci, he sniffed, was prepared to stifle creativity in pursuit of profits.

Not that Mr Saint Laurent's life would have been much different had he instead sold to Bernard Arnault, boss of LVMH and Mr Pinault's arch-rival. Mr Arnault has also shaken up the *haute couture* business, notably by bringing in foreign designers to run French labels that had grown fusty. In 1996, he installed Alexander McQueen, a British designer, at the head of Givenchy. When Mr McQueen defected to Gucci last year, Mr Arnault blithely imported another Brit, Julien Macdonald. There is, apparently, no shortage of creative talent. Mr Saint Laurent's departure merely highlights that, even if the business remains French, almost none of the talent is.

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German shareholdings

The taxman goeth

Jan 10th 2002 | FRANKFURT
From The Economist print edition

The abolition of tax on sales of shareholdings has already made an impact

THAT didn't take long. On January 1st Germany abolished capital-gains tax on the sale of shares held by one company in another. Six days later E.ON, a big utility, said it was selling a subsidiary, VAW Aluminium, to Norsk Hydro, a Norwegian group, for *euro*3.1 billion ($2.8 billion). The timing of the sale has saved E.ON perhaps *euro*500m in tax.

Plenty to unravel
Selected stakes in quoted German companies

Company	Stakeholder	Stake, %
Allianz	Munich Re	25
Degussa	E.ON	65
Infineon	Siemens	41
Linde	Allianz	12
Linde	Commerzbank	10
Linde	Deutsche Bank	10
Munich Re	Allianz	25
Preussag	WestLB	32

Sources: Deutsche Bank; companies

The start of a stampede? German business is overlaid by a lattice of corporate cross-shareholdings. Lots of firms have stakes in unrelated companies. For example, half of Heidelberger Druck, a maker of printers, is owned by RWE, a utility. Allianz and Munich Re, both insurers, and Commerzbank, a bank, own smaller stakes. Now that sales are tax-free, and restructuring is cheaper, it is time to tidy up. The timing of the VAW sale is obviously tax-driven; if E.ON disposed of its 65% stake in Stinnes, a logistics company, it would also haul in more now than last month.

Still, there are good reasons not to expect a sudden rush of sales. One is that restructuring has already been going on, or planned, for a while. RWE and E.ON both intend to concentrate on utility businesses—gas, electricity and water—and have been buying and selling accordingly. Allianz and Munich Re already have plans to cut their chunky stakes in each other to 20%. Sometimes, capital-gains tax has been finessed by clever financial instruments, such as the exchangeable bonds issued by Allianz in the past few years, which the insurer can redeem with shares from its portfolio.

Second, tax is not the only consideration. The state of the stockmarket also matters. With Germany's DAX index still 20% below its level of a year ago, why should corporate shareholders rush to sell? Even with a stronger stockmarket, companies that plan to shave their portfolios will want to weigh sales carefully. “Hitherto our existing shareholdings have beaten the DAX as a benchmark, and thus proved themselves outstanding investments,” said Paul Achleitner, finance director of Allianz, recently.

Moreover, tax can still stand in the way. This week Siemens, an engineering giant, sold 6% of Infineon, a semiconductor maker that it span off in 1999, cutting its stake to 41%. The sale was tax-free, but only because the shares were held by Siemens's Dutch subsidiary, not the German parent. Sales by the parent will not be tax-free until 2006, because disposals of shares in spin-offs are treated less favourably than sales of stakes in other companies. Time for some more tax reforms?

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Mobile telecoms

3G by any other name

Jan 10th 2002 | HONG KONG, LONDON AND SEOUL
From The Economist print edition

Does South Korea lead the world in third-generation mobile telecoms, or has it gone down a dead end?

Get article background

EPA

Time for a new generation

IN SOUTH KOREA, a new generation is shaking up social rituals. Twenty-something Lee Un Jong flips open her mobile phone, gets on to the Internet, and sends a photo of herself to a friend with a message suggesting that they go to the cinema. Within seconds, she receives an affirmative reply. Ms Lee browses a few film reviews on her phone's tiny screen, then books two seats for “Moulin Rouge”. There is no fumbling with credit cards; the tickets will be charged to her phone bill.

What to call this new generation—of mobile services, that is—is the stuff of controversy. Ms Lee's phone operates on a system called 1xRTT which, under ideal conditions, can download information at a rate just above the minimum required to meet the industry standard for “third-generation” (3G) phones. Hence the claim that, with over 1.2m users of 1xRTT phones, South Korea leads the world in the adoption of 3G technology.

Not everybody agrees, least of all NTT DoCoMo of Japan, which claims that its FOMA system, launched last year, is the first “true”3G network. FOMA phones, a few thousand of which are now in use, can operate at much higher speeds than 1xRTT; some even allow video calls. NTT DoCoMo and other sceptics claim, with some justification, that 1xRTT is really an enhanced second-generation, or 2.5G, technology. Even Ki Tae Lee, president of the information and communications arm of Samsung, South Korea's leading mobile-telecoms company, says that 1xRTT is only a step on the way to real 3G.

This view is too nerdy, says Mark Shuper, a Hong Kong-based analyst at Morgan Stanley, an investment bank. Taking into account what people actually do with their phones, as opposed to arcane technical definitions, he argues that South Korea does indeed have “stealth 3G”.

Alphabet soup

The rivalry between 1xRTT in South Korea and FOMA in Japan may seem trivial, but it goes to the heart of a fierce argument about the future of mobile telephony. The 3G world is divided into two camps, and the two countries are on opposite sides. The debate over whether South Korea or Japan is in the lead is the most visible manifestation of a deeper discussion about which of two rival 3G technologies, called CDMA2000 and W-CDMA, is superior (South Korea's phones rely on a kind of CDMA2000; Japanese ones use a type of W-CDMA). With mobile operators around the world expected to spend hundreds of billions of dollars building 3G networks over the next few years, a lot is riding on the outcome.

The split goes back to the early 1990s, when countries were moving from first-generation analogue phones to second-generation digital ones. Most governments—including many in East Asia—chose to adopt the European standard, GSM, which is now used in about 65% of the world's mobile networks. South Korea, however, opted for a rival standard called CDMA, which is used in around 15% of the world's networks. So far this has been a nuisance mainly to Asian and European travellers to South Korea, where they find that their GSM phones do not work.

Now, however, it is proving a boon, because both rival 3G technologies,

CDMA2000 and W-CDMA, are (as their names suggest) based on CDMA. Suddenly, equipment makers and operators that are already using CDMA have a head start. In such countries as South Korea, Brazil, India and Mexico, where existing 2G networks already use CDMA, upgrading to 3G's higher speeds in the form of CDMA2000 is relatively cheap and simple. Countries that adopted GSM, however, are having to build new networks from scratch at great expense. As a result, some parts of the developing world may have high-speed mobile networks before many European countries.

Some parts of the developing world may have high-speed mobile networks before many European countries

Unfortunately, W-CDMA, the 3G standard that has been adopted by the Japanese and Europeans, is incompatible with CDMA2000, the version in South Korea and elsewhere. The former has been plagued by technical problems; aside from a few small experimental networks, no W-CDMA systems are yet up and running outside Japan. This is largely because W-CDMA is entirely new—unlike CDMA2000, which is an evolution of a mature standard. Another problem is that the W-CDMA camp is much larger than its rival, which means it takes longer to get everybody to agree, and to get their equipment to work together. The huge debts run up by European operators to pay for their 3G licences may have slowed things down too.

The result is a face-off between CDMA2000 technology, which is already available, and W-CDMA technology, which is late and more expensive, but is more widely backed. Hardcore supporters of the former argue that the entire W-CDMA initiative will collapse, enabling CDMA2000 to emerge as the world standard. More realistically, makers of CDMA2000 equipment, such as Lucent Technologies, hope to tempt 3G operators to defect from W-CDMA.

But will they? Declan Lonergan of the Yankee Group, a consultancy, says there is “no chance” that European operators, at least, will jump ship. One reason is that in some countries, operators were issued 3G licences only on condition that they adopted W-CDMA. The size of the W-CDMA camp is also a factor, since it ensures that subscribers can use their handsets in many other countries; any operator that switched to CDMA2000 would restrict its subscribers' ability to roam. The likely outcome, says Mr Lonergan, is that W-CDMA will end up as the dominant 3G standard, with around 80% of the market; CDMA2000 will have a smaller share, but will be rolled out sooner.

Given the choice between backing a cutting-edge minority or a late-arriving majority, South Korea is hedging its bets. It has issued three 3G licences, requiring one operator to roll out services using CDMA2000, but forcing two other operators to adopt W-CDMA. The government has also told Samsung that it must supply phones that work on both standards. America will probably end up with both kinds of 3G too.

The lack of a single global 3G standard is a headache for the entire industry. A cellular phone that offers high-speed Internet access and works anywhere is still some way off. Still, there is always the next generation. Already, those in the industry are dreaming about 4G. Ominously, they all seem to have different ideas about what it will be, and when it will arrive.

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About sponsorship

Face value

Disney or doesn't he?

Jan 10th 2002
From The Economist print edition

Big losses have caused long faces at the happiest place on earth. Can Michael Eisner put things right?

Get article background

WHO wants to be a millionaire? The top prize on the television quiz show, produced in the United States by the ABC network, still sounds like pretty good money, despite the waning interest of American viewers in the programme. But for Michael Eisner, chairman and chief executive of Walt Disney, which owns ABC, the $1m he earned last year, his 17th at the group's helm, amounted to a 90% pay cut. Thanks to Disney's poor financial results, the board did not award Mr Eisner any bonus for 2001. In 2000, when "Who Wants to be a Millionaire?", then the most popular show on television, had contributed to a bumper year for Disney, he received $11.5m on top of his regular salary—although he had failed to get a bonus the year before.

The fall in ratings at ABC—from first to last among America's four national television networks in two years—has coincided with a slump in advertising that has depressed all media companies. Disney is desperate to boost audiences, and on January 7th it booted out the top executive for entertainment programming, who had been at ABC for 22 years, as part of an effort to rouse some fresh creative ideas. But Disney's television business, which also encompasses cable companies such as ESPN, a sports channel, is only one of Mr Eisner's headaches.

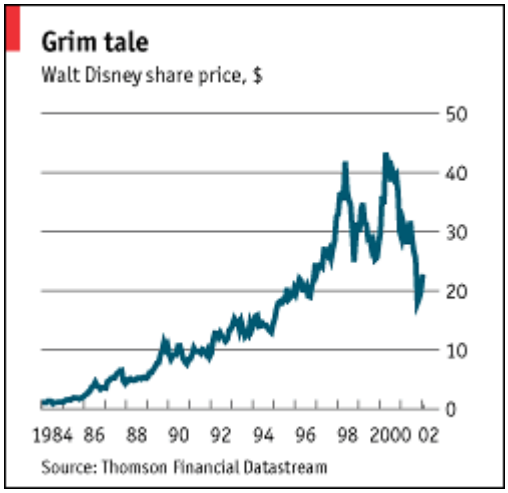
The recession and the drop in air travel brought on by September's terrorist attacks have cut into profits at Disney's theme parks, where typical occupancy rates at hotels have fallen from 90% to 70%, and on cruise ships. The consumer-products division has been struggling for years: Disney closed 50 of its 530 American stores in 2001 and will close more this year. Last February's closure of Go, a web portal, cost Disney almost $900m. And, although the company's film business remains profitable, last year it lost the top spot at the American box office that it held for the previous three years.

Small wonder, then, that Disney's net result for 2001 was a loss of $158m, on revenues of $25.3 billion—despite its financial year ending on September 30th, when the after-shocks of the terrorist attacks were only starting to be felt. The share price has fallen precipitously (see chart). The Bass family of Texas, which had been one of Disney's largest and most loyal shareholders, sold a 6% holding on September 20th to meet a margin call, further unsettling investors.

Even in these gloomy times for the media, Disney's discomfort stands out, raising talk of whether it might be vulnerable to a takeover. This seems more startling given Mr Eisner's stature in the industry. His 17 years in charge of Disney make him one of the most experienced and respected managers in entertainment, and one of the few chief executives in America who has led his firm through a recession before (and done it successfully).

In his time at the top, Mr Eisner has overseen the reawakening of a Disney that was resting on its laurels when he took over in 1984, with annual revenue of $1.7 billion, to today's position among the giants of entertainment. He led a revival of the animation studio, with hits such as "Beauty and the Beast" and "Aladdin", the

expansion of theme parks overseas and the purchase of ABC. Before Disney, he ran Paramount, a studio that produced such hits as “Raiders of the Lost Ark”. So why is Disney in trouble, and can Mr Eisner deal with it?



In search of the silly

Recession, travel-wariness and the slump in media shares are hardly Mr Eisner's fault. Weathering them is not complicated, he says, even if it involves such painful decisions as laying off 4,000 people, as Disney did last year. In the boom years of the 1990s, when egotistical directors could flit to other studios, and when a high share price offered the temptation to buy over-priced Internet start-ups, managing was harder. Trimming costs is more straightforward, says Mr Eisner.

He admits, however, that financial details are not his strongest suit. He cites his degree in English and theatre, rather than economics or management, with pride. Talking to directors, guiding the creative side of the group, is what he loves, and where he reckons his strength lies. If Disney's board were to decide it had had enough of him, he says (with a smile that suggests he does not yet see much danger of that), he would not head for the golf course, or even to the offices of the charitable foundation he and his wife have set up to fund education for the underprivileged in Southern California. He would, he says, rather support a ballet company so that he could direct productions.

But does Disney need a leader whose main strengths are on the creative side? With or without Mr Eisner, the heart of the company would remain its dedication to silliness—cartoon characters such as Sully, the furry blue hero of “Monsters, Inc.”, a recent hit. They replenish a stock of intellectual property that Disney continues to mine with unbeaten expertise: “Snow White and the Seven Dwarfs”, made in 1937, was the most profitable release on video and DVD this Christmas.

And the world needs silliness too, however serious it has seemed since September 11th. Nor is Mr Eisner worried that precocious western youngsters are losing interest in the innocent pleasures of childhood. “That's a crock,” he says, alluding to his own experience as a father of three. “An 11-year-old dressed as an 18-year-old is still an 11-year-old.” Even if she knows more Monica Lewinsky vocabulary than her predecessors, she will still squeal with delight at “The Lion King”.

The magic is not automatic, however. “Monsters, Inc.” was a co-production with Pixar, a studio specialising in computer animation, and the home of creative talent that once would have resided within Disney. Mr Eisner may enjoy creative work, but he must lure other creative types to Disney and keep them there, something he has not always managed in the past. That way lies a return to profit, and an annual bonus.

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Wall Street and small investors

Everyman, farewell

Jan 10th 2002 | NEW YORK
From The Economist print edition

Once, nobody was considered too small to invest on Wall Street. Times have changed

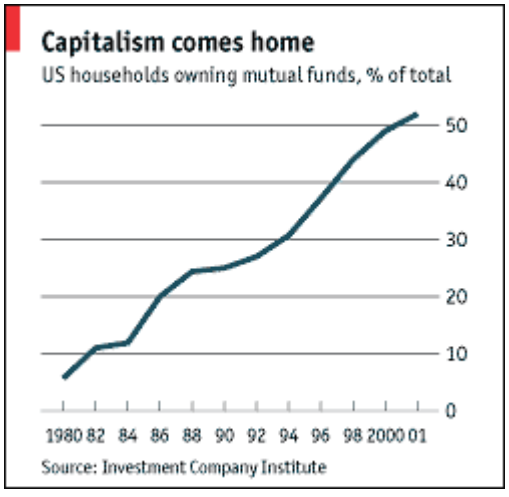
IF PRIVATE investors in America's stockmarkets are proving remarkably sanguine about market convulsions, the investment-management firms that cater for them are having second thoughts about whom they want to serve. At the gilded end of the spectrum, Goldman Sachs and Merrill Lynch are keen to get rid of the poorer portion of their affluent clients, often pushing them kicking and screaming from personalised brokers to managed funds that cost more, but deliver less in terms of service. At the plebeian end of the investment market, mutual-fund firms are quietly getting rid of their poorest clients too, by raising the minimum sums that may be invested, and by closing distribution channels that are cheap for investors.

Not before time, the shift reflects a better understanding of how each customer contributes to a firm's profits. The understanding involves a painful recognition: that today's small customer is unlikely to become the Warren Buffett of the future. Punters may still believe that Wall Street, one day, will make them rich. Wall Street itself no longer buys that. That change signals the end of an era in which nobody was considered too small to participate in the capital bit of capitalism.

America's long bull market, over two decades, was accompanied by broadening public participation. During the final, manic stage of the boom, Internet-based stockbrokers were the conduit for small investors deluded into believing that there was money to be made in frequent trading, often by the day. For most of the stockmarket's rise, however, mutual funds were the vehicle carrying the investing public to the party.

In 1980, according to the Investment Company Institute, fewer than 6% of American households had money in a mutual fund; when they had, the great bulk was in bond or money-market funds, not in equities. Last year, more than half of all households had invested in mutual funds, with investments in equities making up more than 70% of mutual-fund assets.

The elimination of costly barriers boosted the popularity of these investments. Driven to desperation during the grinding bear markets of the 1970s, many fund companies adopted a technique pioneered by Scudder, Stevens & Clark, an old-time Boston firm, of selling direct to the public without an upfront fee (that is, to use the industry term, without a “load”). The change allowed people with modest resources to invest almost as efficiently as institutions could. They opened millions of accounts, often with tiny initial sums.



Unless these accounts grow, they make no sense for investment firms. The cost of providing each account with basic administration—routine accounting, printing statements, and so forth—is $30-40 a year, regardless of the account's size. American fund managers charge fees as a percentage of assets; an individual account needs to have at least $3,000-4,000 in it if it is to cover its basic expenses, to say nothing of the extra costs of research, marketing and other overheads.

Vanguard, a pioneer in cutting costs to improve investment performance, once offered an across-the-board minimum investment of $500 for all its funds. No more. The minimum for some of its most popular funds has now risen to $25,000; a new investor class has been created for other funds in which a minimum balance of $250,000 is rewarded by particularly low fees. Meanwhile, in contrast to Vanguard's past practice of reducing fees for all account-holders as assets rise and economies of scale kick in, the firm has actually increased fees for regular shareholders in some funds—admittedly by a small amount, and from a base well below what most rivals charge.

Less successful competitors are pulling out of the “no-load” business altogether. Invesco, CSFB and even Scudder, now owned by Deutsche Bank, have all recently said that they will stop selling funds direct to the public. Rather, they will sell through brokers, who demand commissions of around 5%. The better-off kind of clients are the only ones these brokers think are worth pursuing.

A symbolic case of how smaller clients are being lopped off as fund managers seek to cut costs comes from TIAA-CREF, a non-profit company created early last century by Andrew Carnegie, tycoon and philanthropist, to provide retirement income for teachers, an experiment that proved an enormous success. In 1997, after lengthy efforts to amend its tax status, the company was allowed to extend its non-profit charter and sell funds to the public. It did so in a most democratic manner, charging fees nearly as low as Vanguard's, and allowing minimum investments of $250.

The outcome, the company says, was a deluge of tiny accounts, opened and then untouched. Taken too far, this could wreck any company's finances. TIAA-CREF recently raised its minimum investment to $1,500. The amount might rise again. Investment may no longer be the preserve of the stinking rich, but the era is over when Everyman could stroll down Wall Street and feel like it was his to buy.

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Terrorist insurance

The pariah of risks

Jan 10th 2002
From The Economist print edition

Who wants to cover terrorist risk? Governments will have to

AP

Business interruptus

BEFORE the terrorist attacks last September, very few insurers or policyholders in America bothered much about terrorist insurance being added to property-and-casualty contracts. After the attacks, insurers and reinsurers alike said they would charge sky-high rates for terrorist risk—if they underwrote it all—unless the government stepped in to help. Both houses of Congress came up with widely different draft proposals that would make the government the insurer of last resort, but they failed to agree on a legislative bill. On January 1st the majority of reinsurance contracts came up for renewal: and almost every reinsurer refused to underwrite the primary insurers' terrorist risk.

Unlike reinsurance, direct insurance policies are not all renewed at a particular time of year. Still, unless the federal government comes up with a solution for covering terrorist risk in the next few weeks—Congress is back in session on January 23rd—primary insurers will also refuse to include terrorist risk in the policies they write. It is, says Robert Hartwig at the Insurance Information Institute in New York, “a creeping crisis”.

Insurance is regulated at the state level in America. So insurers need permission from state insurance commissioners to exclude terrorist risk from their policies. So far, more than 40 states have approved optional exclusions for terrorist risk from policies that cover general liability, commercial property, business owners and the like. They reckon that granting these exclusions is preferable to seeing insurers withdraw from entire lines of business in their states. The insurance commissioners of New York, Alaska and California have refused their approval. The Californian commissioner fears that insurers might also deny coverage for “hate crimes”, were they allowed to exclude terrorist risk.

American lawmakers failed to find a solution for terrorist cover late last year, partly out of dislike of a possible new bureaucratic apparatus in Washington, and partly because of worries about bailing out the entire insurance industry. Terrorist insurance involves huge numbers of policies and is far more complex than, say, crop insurance or flood insurance, both already covered by federal programmes. Last September's attacks even brought claims for business interruption from duty-free shops in Miami airport, when they had to close for six days. All the same, making the government the insurer of last resort for terrorist risk does not guarantee a bail-out. The draft proposal by the House of Representatives, for instance, called only for a one-year, risk-sharing loan programme.

Some European governments with long experience of terrorism are already insurers of last resort for terrorist risk. In Britain, “Pool Re”, a government-backed, mutually owned company, was set up in 1993 after a series of bombs by the Irish Republican Army on mainland Britain. In Spain the Consorcio de Compensacion de Seguros, a compulsory government scheme, covers, among other risks, attacks by Basque terrorists.

Even governments in countries less troubled by separatist bombs are about to take on a role as reinsurer for terrorist risk. In France, the government-backed Caisse Centrale de Réassurance used to cover only natural catastrophes; now it will take on claims for terrorist attacks that cause more than *euro*1.5 billion ($1.2 billion) of damage in any year. French insurers had threatened to stop writing entire policies after the attacks on America; a 1986 law forbids them from excluding terrorist risk from insurance policies.

Insurance executives in Germany are still negotiating with their government about setting up a pool for terrorist risk.

In the end, says Walter Kielholz, chief executive of Swiss Re, governments will become the insurer of last resort, in the case of a big terrorist outrage, whether laws are in place or not. Governments cannot risk the collapse of their insurance industries. Nor can they contemplate the huge damage done to their economies if most businesses remain uncovered for terrorist risk—whether because cover is unaffordable or because it is unavailable.

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Wine futures

Traded on the grapevine

Jan 10th 2002
From The Economist print edition

A more efficient market in claret

WINE from the Bordeaux region is an aromatic purple fluid, but as a commodity it is surprisingly illiquid. Claret (as red Bordeaux is known in England) is sold as a future, that is, *en primeur*. Every April, the Union des Grands Crus de Bordeaux organises a tasting of the previous year's vintage so that buyers can evaluate it.

In a bad vintage, prices are announced immediately; in a good one, chateau owners tend to await the verdict of Robert Parker of *Wine Advocate*, the world's most influential wine critic, before setting their prices. By July, most of the wine has been allocated to merchants, who commit themselves to paying an agreed price when the wine is delivered about 15 months later. Merchants then apply a mark-up and sell the wine to their customers, who promise to pay a particular amount when the wine they ordered finally arrives.

The prices are thus fixed, in effect, for 15 months. But during that time the wine's value (that is, the price that people are actually prepared to pay for it) often changes. When the wine is released, market forces kick in, and the price quickly adjusts. But anybody who wants to buy or sell their allocation in the intervening period has a problem: there is no way to determine the market price for a particular chateau's wine.

“Wine is a commodity, whether you like it or not”

Or at least there wasn't until recently. Last year, a British wine merchant, Bordeaux Index, set out to create a proper secondary market. Gary Boom, one of the firm's directors, says that as much as 70% of *en primeur* Bordeaux is bought with a view to speculative trade, rather than for consumption by the buyer. So the firm has established a two-way dealing service for the 2000 Bordeaux vintage, which shows current prices for 35 wines. Bordeaux Index acts as a market-maker, agreeing to buy and sell at the prices listed, which it adjusts in line with demand. (The spread is typically 5-6%.)

After the trading service opened in August, the prices of some wines fell by 20-25%, confirming the widespread belief that the vintage was overpriced. The prices of the first-rank wines have since rebounded, in line with stockmarkets generally—Mr Boom is fond of pointing out the correlation between the two, which he has researched in some depth. But the prices of lesser wines are still down, which may discourage chateau owners (who are watching closely) from setting their prices too high for the 2001 vintage.

There are other futures markets for wine. Euronext, a set of European exchanges, launched its own “Winefex Bordeaux” exchange in September. But, says Mr Boom, Bordeaux Index is handling a far higher volume—3,435 cases of wine were traded in August alone. The service is popular with other merchants because it enables them to source wines for their customers without running the risk of buying *en primeur* themselves. Bordeaux Index plans to launch similar services for the 1999 and 2001 vintages. And it has announced a tie-up with Bloomberg, which will make Bordeaux Index's prices available on its terminals.

Not everybody approves. Neil Beckett of *Harpers*, a British wine-trade magazine, says that traditionalists object to the whole notion that wine can be traded just like any other product. Sour grapes, says Mr Boom: “Wine is a commodity, whether you like it or not.”

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Unit Trust of India

Changes made, at last

Jan 10th 2002
From The Economist print edition

Half-hearted reforms for India's biggest fund manager

EPA

20m more feel that way

AFTER years of dithering, and two bail-outs, the Indian government is at last moving to sort out the country's oldest and biggest fund manager, Unit Trust of India (UTI), a state-owned disaster that controls over half the funds under management in India. The government has announced measures aimed at freeing UTI from government control, giving it the chance to operate like any other mutual fund (unit trust) in India.

To start with, UTI is to be put under the supervision of the Securities Exchange Board of India, the market regulator, in order to create a degree of accountability and transparency that it has always lacked as a special state entity. Although private-sector mutual funds have been regulated since 1994, UTI's biggest fund, US-64, with 20m investors, has never had to declare daily the market value of its assets. Thus shielded, government-appointed chairmen have overseen a series of disastrous investments, notably in former state companies, illiquid shares and the bonds of troubled companies. As the value of the fund's investments slumped, the government last year had to promise small investors that it would buy back units in the fund for much more than their market worth. Now the plan is for US-64 to report to the regulator, much like any other fund, before the end of the year.

The government has appointed an advisory group to carry out a programme of changes based on the recommendations of the many expert committees that have looked into UTI's operations. It also says that more investment professionals should sit on UTI's board, and that rigorous systems for investment and risk-management should be put in place.

These measures do not absolve the government of the liabilities that it assumed when it bailed out US-64, for the second time, last June. (The first bail-out cost $750m; the second will cost several times that.) The net asset value of US-64, disclosed by UTI for the first time on January 1st, stands some 40% below the fund's original issue price. The government has undertaken to pay back holders of small units at something over the issue price.

For now, big investors (those with more than 5,000 units) may cash out of the fund only at net asset value, which entails a hefty loss for them. They are praying for a stockmarket recovery. Yet now that US-64 is shifting the focus of its investments, from risky equities to bonds, the possibility of a sharp rebound in net asset value looks remote. Most big investors will probably remain with the fund until May 2003, when UTI has promised to repurchase units at their original issue price, even if the net asset value is lower.

The government hopes that these measures will instil renewed confidence in UTI, forestalling a rush of redemptions. It, too, prays for a rising stockmarket that would limit its own liabilities. For now, that is the extent of reforms. Any suggestion of privatising UTI is dismissed, for fear of triggering widespread redemptions. In the long run, though, full-blown privatisation is surely the only sensible ending to this unhappy tale.

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Credit derivatives

Rites of passage

Jan 10th 2002
From The Economist print edition

With Enron and Argentina, credit derivatives pass an important test

ARGENTINA'S debt default and the collapse of Enron, America's biggest bankruptcy, are together offering the greatest test yet faced by dealers in the still young market for credit derivatives. These are instruments that allow lenders to pass on to others the risk that borrowers will default—in return for a fee. Billions of dollars of credit-default swaps, one class of such derivatives, were written on Enron and on Argentina. Here is a chance, people who deal in credit derivatives think, to prove their products' worth.

In the early days, just a few years ago, the joke among traders at investment banks was that the busiest person on a credit-derivatives desk was the lawyer. In all too many cases, buyers of credit-derivative protection found that their interpretation of a contract differed vitally from that of the firm which had sold it. Legal wrangles ensued, harming the young product's reputation. Yet so far, to the relief of the six or so investment banks that dominate the market, there is no sign of trouble over the settlement of credit-default swaps written on Enron.

Argentina might be more of a problem. In November, the government announced a restructuring of its local debt on terms more favourable to itself. Some buyers of default protection on foreign-held debt believe that, although the restructuring was described as voluntary, it met their contracts' definition of a “credit event”, meaning that they should receive the debt's full face value. One hedge fund in New York, whose default swap expired soon after the restructuring, plans to sue J.P. Morgan Chase, one of the banks most active in the market for credit derivatives, for rejecting their interpretation. But most owners of credit-default swaps are now clearly entitled to their money, after Adolfo Rodriguez Saa, briefly president of Argentina, announced in December that the country would stop paying interest on its foreign debt.

Even so, dealers and hedge funds are quarrelling over whether two particular government bonds, maturing in 2018 and 2031, are covered by the default protection. The argument springs from the fact that these bonds were issued as part of a debt exchange by the Argentine government last June. Some sellers of protection fear that, because of this, the bonds may be treated less favourably than other government debt in any future workout. Goldman Sachs and other credit-derivative dealers would prefer not to accept these bonds—although they are reluctantly doing so. Ron Tanemura, the firm's head of credit derivatives, says that there is a grey area, but that Goldman will fall into line with market consensus, once there is one.

Disputes are thus still breaking out in the market. But dealers in credit derivatives have lately been keen to make their products more reliable. When lawyers were called in by buyers and sellers of protection on Railtrack, the owner of Britain's rail network that was forced into administration last year, they quickly brought in the industry trade body, the International Swaps and Derivatives Association, to sort things out.

At issue was whether Railtrack's convertible bonds were covered by default protection. The association opined, in favour of protection buyers, that they were. It did much last year to improve its rules on contracts for credit derivatives. Its new “modified restructuring” rule clarifies the issue, keenly debated over the past two years, of whether debt restructuring, as opposed to actual default or bankruptcy, should count as a credit event. The trade body has also offered guidelines for what should happen to default swaps on companies that demerge or spin off units.

With these improvements, growth in the market for credit derivatives is likely to continue apace. It has almost doubled each year since 1998, to a total of nearly $700 billion in value, according to the Bank for

International Settlements. Credit protection has particular appeal at a time of high corporate default rates.

Commercial banks are continuing to shed corporate-credit risk using default swaps. But new entrants—insurance companies and fund managers—are coming into the market to assume risk, as sellers of protection. Last year, investors seeking attractive yields were eager to gain exposure to corporate credit through “synthetic” collateralised debt obligations (CDOs), structured-finance vehicles made up using credit-default swaps. Investors may not be quite so gung-ho in future. Enron, for example, was one of the credits contained in many synthetic CDOs, and its collapse will have led to losses for investors. In the world of credit derivatives, *caveat emptor* still applies.

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Share values

Plenty of bull

Jan 10th 2002
From The Economist print edition

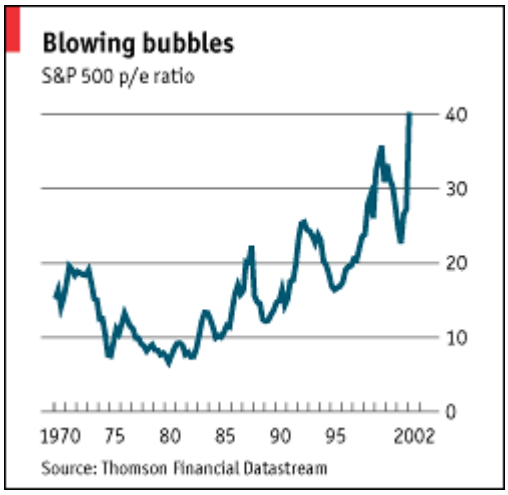
A whiff of irrational exuberance

THE way the world's stockmarkets slid so steeply last September now seems a distant memory. Later that same month, some Wall Street analysts claim, a new bull market began. Since then, the Dow Jones Industrial Average has risen by almost 25%, to above 10,000. The Nasdaq is up by nearly 45%. European markets have also seen big rises, such as the 40% jump in Germany's DAX. The same analysts predict further gains, as America's economy bounces back, spreading cheer all round.

On the face of it, the bulls' case looks good. Markets start to rebound, on average, four or five months before an economy reaches its trough. Most economists now reckon that the American economy will start to grow again in the current quarter. If so, it is argued, the rally since September is built on solid ground. It may also have further to go. After all, the S&P 500 index is still about 25% below its all-time peak; the Nasdaq is 60% down.

Share prices may be lower than before, but that does not make them cheap. By many measures, America's stockmarkets still look overvalued. The S&P 500 has a price/earnings (p/e) ratio—the share price divided by the most recent 12 months' earnings per share—of 40, well above its long-term average of 16 (see chart). At its 1979 trough, the S&P 500 had a p/e of less than 8; it had a p/e of 12 after the stockmarket crash in October 1987.

The p/e ratio has reached such a high level because share prices have rebounded even as profits continue to slump. Over the past year, corporate America has seen the sharpest fall in profits since the 1930s. Profits will almost certainly pick up this year, reducing the p/e ratio when measured by forward profits. On the other hand, Martin Barnes, at the Bank Credit Analyst (BCA), a Canadian research firm, forecasts merely single-digit growth in profits. Nominal GDP growth is running at its slowest for decades, and firms' pricing power is constrained by excess capacity.



Not only do stockmarket bulls ignore valuations; they are betting on a classic, “V-shaped” economic recovery, with a strong bounce in output and profits. Yet given the debt burdens of households and companies, as well as ample spare manufacturing capacity, growth in both investment and consumer spending could remain below trend for some time.

Bubble trouble

Another bubble on Wall Street? If so, one source of hot air is easy to spot: rapid money-supply growth, following the Federal Reserve's loosening of monetary policy over the past year. What was once the Fed's favourite measure of money, M2, has grown by 10.5% in the past year, nearly double the average pace in previous recessions. M3, the broadest measure of money, has grown at an annual rate of 17% over the past three months. In real terms, both measures are growing at their quickest pace in three decades. The whole world is awash with money. In the euro area, broad-money growth is running at its fastest for almost ten years. In Japan, the central bank has pumped out vast sums in an attempt to get the country out of its slump.

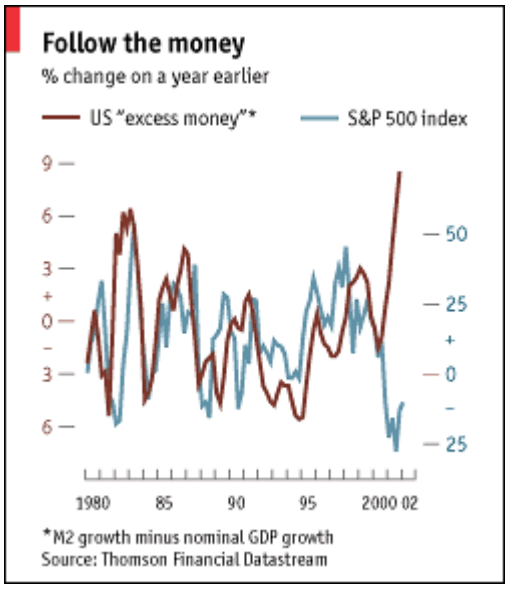
Traditional monetarists once argued that a hefty increase in the money supply was sure to push up

inflation. Since then, the relationship between money and inflation has broken down. In the current environment of excess capacity worldwide, inflation is likely to fall in America and the euro area over the next year, and deflation will probably persist in Japan.

Might excess liquidity be spilling into equity prices? Historically, share prices have often moved in step with the rate of growth of “excess money” (ie, broad-money growth less nominal GDP growth). An increase in excess money has often been followed by a rise in share prices. A crude explanation is that when money growth is faster than the economy's needs (as measured by nominal GDP), plenty of liquidity is available to flow into financial assets.

Liquidity conditions in America have rarely been so bullish for financial markets: excess money is expanding at a faster pace than at any time in the past three decades (see chart). This signals, perhaps, higher share prices.

Before rushing out to buy shares, however, readers should consider the following. While the previous link between share prices and money supply is fairly impressive, some economists question whether “excess” money affects share prices through a pure liquidity effect or only indirectly through its impact on output and profits. If it is the latter, then if rapid money growth fails to spark a strong increase in borrowing and hence spending (perhaps because debts are already at record levels), investors will be disappointed.



What is more, part of the jump in the money supply reflects a shift in households' portfolios, from equities into money-market funds (these, unlike equities, are included in the broadest measure of money). In other words, the increase in money partly reflects investors' concerns about future economic prospects—not an obvious basis for a robust recovery.

The problem is that many money-market funds earn paltry annual rates of return: just 1%, after fees. In contrast, most investors still seem to expect equities to yield double-digit annual returns. It therefore takes little encouragement from stockbrokers for them to move back into equities. The bursting of the equity bubble over the past couple of years might have been salutary. Yet BCA's “speculation index”, which includes indicators of market leverage, supply and sentiment, is still in the “extremely speculative” zone.

Ample liquidity may well drive share prices higher in the short run, but a sustained bull market requires more than liquid refreshment. In the long run, profits are what counts. The high valuations already put on shares will probably limit future gains; indeed they leave the stockmarket vulnerable to a sharp slide. If future profits grow more slowly than the market expects, it may be years before share prices regain their previous heights.

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Economics focus

Dividends' end

Jan 10th 2002
From The Economist print edition

Should technology companies pay dividends?

RALPH NADER, champion of American consumers, launched himself to fame and riches in the 1960s by exposing flaws in cars' safety. Now the rumpled crusader is fighting a new public enemy: puny dividends. He is scandalised by Microsoft's reluctance to part with any of its $36 billion hoard of cash, which he deems “an inappropriate and...unlawful device”. He calls it a tax dodge and, darkly, “an engine for further monopolisation”. Even some of Microsoft's own shareholders, perhaps fearful that the era of ever-rising stockmarkets is over, are lobbying the software giant to pay out more cash.

Microsoft is not alone in keeping its mattress stuffed. Dividends have long been shrinking; ever fewer companies are bothering with them at all. According to Standard & Poor's, only 72% of companies in its S&P 500 index paid a dividend last year, down from 94% in 1980. Last year, the average dividend payment shrank by 3.3%, the biggest drop in 50 years. Barely one-fifth of all listed American companies paid a dividend in 1999.

Financial theory says none of this should matter. As Merton Miller and Franco Modigliani, two American economists, argued 40 years ago, the level of dividends should have no effect on the value of a share. This “dividend irrelevance” proposition was one of the theories that won the pair a Nobel prize. Shareholders, they observed, hold the same value whether a firm returns cash or retains it. When a firm pays a dividend, the share price ought to fall by the exact amount of the cash: punters are simply being paid with their own money.

Yet dividends, like many things that economists deem irrelevant, do actually seem to matter. This becomes painfully clear when a firm decides to reduce or eliminate its dividend. If the irrelevance theory held in the real world, share prices should not move in response. Yet they typically plunge on this sort of news, perhaps because the change in dividend policy signals trouble at the company. Clearly, punters see a role for dividends that the professors do not.

Dividends, like many things that economists deem irrelevant, do actually seem to matter

Other economists have dreamt up theories to explain this role. The first is that investors see a company's promise to pay a dividend as more reliable than any prospect of selling shares to raise cash. A second theory makes dividends akin to a peacock's tail, a signal of a share's value and desirability: only profitable, well-managed companies can afford to pay them. Another idea is that dividends serve as a source of financial discipline, helping to foil expensive mergers or pricey perks for executives.

What about companies that have never paid a dividend? Surely initiating dividends must work wonders for share prices. Actually, no. Steve Milunovich of Merrill Lynch recently looked at three high-technology outfits: Intel, Computer Associates and Compaq. In two of the three, launching a dividend scheme was followed by a decline in price/earnings ratios relative to their competitors.

This result is hardly scientific, but it confirms the intuition of many managers who think that introducing dividends at fast-growing companies might be bad for share prices. To understand why, go back to the signal theory. Just as a dividend might signal stability to some investors, to others it might suggest that the company has run out of good investment ideas. Presumably, that is why dividend-free shares have become the club tie of America's high-growth companies.

Dividends are still an unsolved puzzle for financial economists, eluding any single theory. At the same time, however, managers have devised other ways of returning cash, ones that often better suit a

company's (or even shareholders') needs.

Investing in themselves

The long-term decline of the dividend tracks another trend. More companies have been using spare cash to buy back their own shares. This provides a boost to share prices, and means that each remaining share gets a bigger slice of profits.

Buying back shares can be more tax-efficient than dividends, thanks to higher tax rates applied to dividend income than to capital gains in America and in much of the rest of the rich world. Moreover, buy-backs give companies greater flexibility than a schedule of fixed quarterly or half-yearly dividends. They enable companies to return cash to shareholders when investment opportunities flag, or to retain it when profitable projects arise.

In Europe, where dividends have played a bigger role than in America, companies have greatly increased their use of buy-backs in the past decade. *CFO Europe*, a sister publication of *The Economist*, found in a study of 127 large European companies that buy-backs have grown from nothing in 1993 to a 15% share of all cash returned to investors in 2000. This growth occurred as the fraction of all profits paid out remained unchanged, suggesting that buy-backs are, as in America, starting to supplant dividends.

The crucial question for shareholders ought to be whether a company has profitable uses for its cash. If it has not, then it is better to return cash to shareholders. The precise method it chooses will always have particular costs and benefits. Some classes of investor will prefer income; others will want capital gains.

Mr Nader is himself no stranger to this trade-off. When he ran as the Green Party candidate for America's presidency in 2000, he revealed that more than a quarter of his $3.8m of net worth consisted of shares in Cisco Systems, another technology company with a huge cash hoard. Shares in Cisco, which has never paid a dividend, have slumped by two-thirds since his campaign. The personal, goes the saying, is political.

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About sponsorship

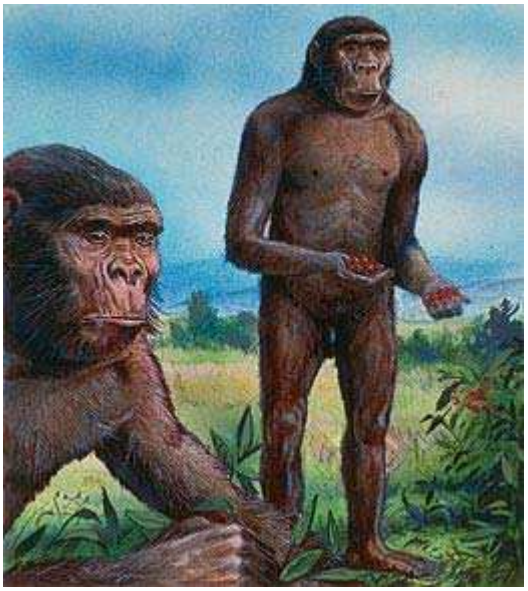
The American Astronomical Society meeting

Fire burn and cauldron bubble

Jan 10th 2002 | WASHINGTON, DC
From The Economist print edition

A cluster of nearby stars may hold the key to two scientific puzzles

Natural History Museum



NEXT time you find yourself looking at the night sky in spring, make sure you turn to the constellation of the Scorpion and, if you are far enough south, especially to the place where it meets the Centaur. There, a bunch of bright stars is beating a hasty retreat from the neighbourhood, having wrought havoc even as it left a precious legacy: starry nights.

Astronomers call these stars the Scorpio-Centaurus OB association (O and B stars being the most massive in the heavens), or “Sco-Cen” for short. Because it contains such big, bright stars, and because Sco-Cen is reasonably close by astronomical standards, it makes a fine sight in the sky. These are also the reasons why it is the prime suspect in some violent goings-on a few million years ago. Large stars lead short lives that often end in an explosion known as a supernova. And a supernova in the solar system's neighbourhood is just what astronomers have been looking for, in order to explain why the sun is camped in the middle of a galactic wasteland.

This wasteland is known as the Local Bubble, and it has been a puzzle ever since its discovery in the 1970s. The bubble is an absence of matter: the interstellar gas within a radius of about 300 light years of the sun is far less dense than the galactic average. It is also very hot—about 1m°C—though its tenuous nature means that it would not scorch you.

Astronomers owe a lot to the Local Bubble. Without it, starlight would have a much tougher job reaching the earth, so fewer stars would be visible. In addition, even those that were would tend to appear a dull, red colour, since the more exciting frequencies of light would be absorbed in transit. On top of that, one end of the bubble pokes out of the plane of the galaxy, providing human astronomers with a window on to the rest of the universe that less favoured alien races might envy.

Without the Local Bubble, fewer stars, and less of the universe, would be visible

What is less clear is why the bubble is there in the first place. The presumption is that it was created by a supernova. The shockwave from this would have carried almost everything before it, and what was not swept away would have been heated up enormously.

Supernovae, however, tend to leave traces. The shockwave itself is usually visible, and the collapsed remnant of the star frequently forms a rapidly spinning object known as a pulsar. But the Local Bubble is a quiet place: just thin, hot gas and stars, almost all of them small ones like the sun that are up to no particular mischief. No shockwave, in other words. And no pulsar.

A possible solution to this puzzle has just been announced at the winter meeting of the American Astronomical Society (AAS) in Washington, DC, by Jesus Maiz Apellaniz, a researcher at the Space Telescope Science Institute in Baltimore. All the evidence, according to Dr Apellaniz, points to stars now deceased that were once members of Sco-Cen.

Exploding the bubble

To persuade his peers that he is right, Dr Apellaniz needs to show three things: that Sco-Cen is the kind of star cluster which produces supernovae; that it was at the scene of the crime when the Local Bubble was formed; and that a supernova exploded at the right time. Putting together research by himself and several other scientists, he thinks he can do all three.

To start with, there is almost no way that a star group like Sco-Cen could have failed to produce supernovae in the past. The O and B stars after which it is named are being formed continuously out of the dust and gas it contains. Such stars burn so profligately that they can survive for only a few million years before they run out of fuel. When that happens, they collapse. If the collapse is big enough it results in an explosion—in other words, a supernova.

Evidence that this has actually happened comes from a European Space Agency satellite called *Hipparcos*, which is recording the positions of stars with such precision that repeated measurements can track their movements. Three Dutch astronomers, Ron Hoogerwerf, J.H.J. de Bruijne and Tim de Zeeuw, investigated a number of “runaway” stars that *Hipparcos* has located near Sco-Cen. These stars are racing away from the cluster at speeds of up to 200km a second.

Such runaways are thought to have been members of binary systems that were blown apart when one of the partners became a supernova. The *Hipparco*s measurements make it possible to “rewind” the film, and show that pairs and even triplets of these stars were extremely close together in Sco-Cen several million years ago. That confirms that supernovae were produced in the cluster.

The question is, could any of those explosions have caused the Local Bubble? It appears that they could, for the whole Sco-Cen association is on the move. It is sailing through space away from the sun, and by “hindcasting” its journey, it looks as though parts of it may have been as close as 100 light years from the sun a few million years ago.

Knowing the birth-rate of large stars in associations of the Sco-Cen type, and knowing how long such stars live, Dr Apellaniz concludes that Sco-Cen may have produced as many as six supernovae during the 10m years it was in the sun's neighbourhood. That would have been enough to blow away the interstellar gas and create a bubble.

New brooms sweep clean

Besides explaining the Local Bubble, this interpretation also sheds light on the recent history of the earth. Three years ago, some German scientists discovered two thin, but globally distributed, layers of sediment in the ocean floor. One was about 5m years old, the other 2m years old. Both were enriched in an unusual isotope of iron that calculations suggest would be produced in large quantities by stars exploding as supernovae.

That timing is suggestive: 2m years ago, life on earth underwent a convulsion. Many species suddenly became extinct in a transition between the epochs known as the Pliocene and the Pleistocene.

In the past, palaeontologists who study such mass extinctions have tended to dismiss nearby supernovae as possible causes. Although such stellar explosions produce a lot of radiation of a sort that would be bad for life on earth, it has always been assumed that these radioactive particles would be slowed down and dispersed by the magnetic fields that are associated with interstellar gas.

However, as Dr Apellaniz and his colleagues Narciso Benitez and Matilde Cañelles of Johns Hopkins University argued in a second paper at the AAS meeting, two supernovae in quick succession might be far more dangerous. The first would sweep a path clean for the radioactivity of the second, and the result would be a blizzard of subatomic particles that would, among other things, destroy the ozone layer that protects terrestrial life from damage by ultraviolet light.

The first forms of life to suffer would be plankton, soon followed by species that eat plankton, such as marine molluscs. And those are exactly the species that fell first in the Pliocene/Pleistocene transition. Other changes would follow, on land as well as at sea, with species that survived the transition, such as humanity's ancestors, being able to take advantage of the reduction in competition. The stellar broom that swept the skies clean for human astronomers to marvel at might thus have had a hand in the evolution of those astronomers' ancestors in the first place.

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Fuel cells and cars

The turning-point?

Jan 10th 2002 | DETROIT
From The Economist print edition

Another step towards a fuel-cell-powered car

AP

Also available with seats

MORE than 700 vehicles are on display at this year's Detroit motor show. One stands out. Among the serried ranks of cars and “sport-utility vehicles” is what looks like a giant skateboard. This is Autonomy, a prototype built by General Motors (GM) to explore the design changes that might come about if internal-combustion engines are replaced by fuel cells. The Bush administration's announcement in Detroit of a new programme, called “Freedom Car”, to develop fuel-cell-powered vehicles, encouraged fuel-cell enthusiasts.

In any good design, form follows function. Given a petrol or diesel motor, most engineers have opted for an engine compartment at the front of the vehicle, and a driveshaft that delivers power to the wheels. A passenger compartment sits behind the engine, and a luggage space is installed behind the passengers.

Arriving at an optimal version of this design took time. The first horseless carriages looked like the horse-drawn models from which they had evolved, and it was decades before they shook off the essential boxiness that resulted. General Motors' top managers do not want to repeat that process if fuel cells take over. So about a year ago they asked the company's engineers to start from scratch and design a fuel-cell-based platform that might form the basis of GM's advance into the new technology. The result is Autonomy.

At its simplest, a fuel cell combines hydrogen with oxygen to produce water and a flow of electric current. That electricity can be used to operate a motor, or, in the case of Autonomy, four motors—one attached to each wheel. In addition, unlike the power-generating elements of internal-combustion engines (the cylinders), which have to be arranged in a precise geometrical relationship with each other, fuel cells can be slung together any old how, so long as the wiring is correct. That means they do not necessarily have to be lumped together as an engine block, in the way that cylinders must.

Autonomy reflects the fact that a fuel-cell stack can be made flat and thin. The prototype is barely 15cm thick, although it is as long and wide as a conventional chassis. It contains not only the fuel cells and the storage system, but the motors, suspension and electronic control system. As GM envisages the concept, vehicle bodies would not only be manufactured separately from the chassis, but might even be sold separately. That would be possible because, rather than having mechanical links from controls to working parts, a motorist behind the wheel (or joystick, or whatever) of Autonomy would be driving “by wire”, rather like a jet-fighter pilot.

Autonomy has four attachment points for bodies, which might look like those of a conventional saloon, a coupé, a pick-up truck or even a sport-utility vehicle. Or they might take a new form never before seen—perhaps incorporating a new approach to safety. Indeed, it would be possible to have several different bodies, and to change them as need or desire saw fit.

There are several obstacles to overcome before a production version of Autonomy hits the road. One is price. A fuel-cell power-pack still costs about 100 times as much as a comparable internal-combustion engine. Prices are coming down, and performance and reliability improving, but the real motive for pushing fuel cells is their lack of noxious emissions. This allows them to pass environmental controls imposed by places such as California.

A potentially more serious challenge is how to store the hydrogen fuel on board a vehicle safely, and in large enough quantities. Hydrogen is a gas, which means that it has to be compacted somehow if a usable amount is to be carried. When mixed with air, it is also an effective explosive. Many solutions have been proposed: liquefaction, compression, absorption into solid compounds called metal hydrides, and on-board extraction from more conventional fuels such as petrol or natural gas are four that are peddled routinely.

How to design a vehicle that can store hydrogen fuel on board safely, and in large enough quantities?

One of General Motors' rivals, Chrysler, has now come up with a fifth possibility which is, in its way, as unconventional as Autonomy. The company's prototype Natrium minivan relies on a chemical called sodium borohydride. This is a fancy name for the hydrogenated version of borax laundry powder.

Natrium carries 175 litres of a 20% solution of sodium borohydride in water. Step on the throttle and the mixture is pumped past a catalyst made of ruthenium. This strips the hydrogen out of the compound, and feeds it to the vehicle's fuel-cell stack. The used slurry is then stored until it is time to refuel, when it is pumped out while a fresh batch is loaded.

Whether sodium borohydride could prove a feasible solution to the hydrogen-storage problem remains to be seen, but it is an ingenious idea. Both it and Autonomy demonstrate that the big car makers are taking fuel cells seriously. The American government has also stepped in by announcing a switch of support from studies of conventional fuel efficiency to studies of fuel cells, though cynics may note that this will tend to increase sales of petrol until the cells are introduced. But if they are, it will represent the most dramatic change in car technology since Carl Benz first chugged out of his garage in 1885.

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The Australian bush fires

Blazing a trail

Jan 10th 2002 | MELBOURNE
From The Economist print edition

Computer models may soon help to predict forest fires

AP

THE bush fires leaping around Sydney are now in their third week. The disaster has already laid waste more than half a million hectares of New South Wales, destroying more than 100 dwellings in the process. It has killed or evicted countless wild animals. And it is expected to cost the state's government at least A$70m (about $35m) in equipment and manpower to calm the flames, while insurance companies face a similar level of payout once the fires have been doused. Although fire-fighters seem, at last, to be gaining the upper hand (helped by rain), the debate over how such fires should be tackled and, even better, prevented, will rage long after the last embers have burnt themselves out.

One tool that might help sits in the School of Mathematical Sciences at Monash University in Melbourne. Here Michael Reeder, in collaboration with Terry Clark of the National Centre for Atmospheric Research in Boulder, Colorado, is trying to create a mathematical model of how bush fires behave.

Fires are complex phenomena. They are subject to details of weather, terrain and fuel. And they feed themselves: the heat they generate creates air currents that help to spread the blaze. So it is hard to devise accurate models. But Dr Reeder and Dr Clark have made a start.

Their model is based on equations which describe the speed, direction and temperature of the winds that fan the flames. It also includes mathematical descriptions of turbulence, which take into account how the winds vary over different landscapes. Fed with digitised topographical data and a weather forecast, it can make a fair stab at predicting the behaviour of a bush fire. The researchers know this because they have been setting small, experimental fires in Australia's Northern Territory, analysing their spread, and comparing the results with the model's predictions. However, as Dr Reeder points out, it is early days. For a start, it takes his computers ten minutes to simulate a minute's worth of inferno. That limits the technique's usefulness in charting the course of a wildfire that is already on the march, but it may find other applications.

One way to reduce the risk of fire in the wild is to consume available fuel through a “prescribed burn”. Such deliberate scorchings are a routine part of forest management, but foresters use them sparingly, for fear of losing control. As a result, a debate has flared up about whether more prescribed burns should have been done before the overheated summer that Australia has experienced. Accurate computer modelling of prescribed burns in various weather conditions would take much of the guesswork out of how to set them, and might give officials more confidence to fight fire with fire.

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About sponsorship

Images of New York

How many dawns

Jan 10th 2002
From The Economist print edition

Hulton Getty

For a century, New York skyscrapers embodied American dreams. From their different perspectives, five new books ponder the city's changing image

VISITORS are used to hearing that New York has little in common with the rest of America. Yet just one shot of its extraordinary skyline can still tell you that you are in a land of dreams and ambition more quickly than the image of any other American city.

Ever since movie makers first started filming there more than 100 years ago, and even after the industry fled west not long afterwards, New York has kept its hold on them. It has haunted their thoughts, and through them our imagination. When it became too tiresome and expensive actually to make movies there, ersatz Manhattans were created in loving detail on the backlots of Hollywood studios, authentic to the last deli-counter, fire hydrant, El track and brownstone stoop. Not that their vision of the city was always soaring or upbeat. When in “Celluloid Skyline”, a new book on New York in the movies, James Sanders points to the half-buried Statue of Liberty in “Planet of the Apes” or to the ruined city in “Armageddon”, most of us can picture the dismal scene. New York on screen has represented the American dream and the American nightmare.

That conflict is reflected in four other books on New York, some published before September 11th and some afterwards. While nobody could have predicted the nature of the catastrophe visited on the city, the idea that it was galloping hubristically towards disaster is an old one, in print as well as on screen.

Ever since the first skyscrapers were erected at the end of the 19th century, doubts have lingered about their safety. In “Downtown”, a scholarly history of the business districts of New York and other American cities from 1880 to 1950, Robert Fogelson records concerns about the risks posed by fire, especially to those trapped on the upper floors, and the danger that the tallest buildings might collapse if corrosion ate into their steel frames. Some, too, thought they looked unsightly, turning the New York skyline into “a horribly jagged sierra”. But in a city driven by the urge to expand in all directions, with entrepreneurs constitutionally opposed to all forms of regulation, it was impossible to exert effective control.

Proliferating skyscrapers became the most distinctive American contribution to architecture. Rarely have they been viewed as just an efficient way of squeezing

Celluloid Skyline: New York and the Movies
By James Sanders

Knopf; 496 pages; $45.

Buy it at
Amazon.com
Amazon.co.uk

Downtown: Its Rise and Fall, 1880-1950
By Robert M. Fogelson

Yale; 544 pages; $35 and £25

Buy it at
Amazon.com
Amazon.co.uk

Empire: A Tale of Obsession, Betrayal and the Battle for an American Icon
By Mitchell Pacelle

John Wiley; 344 pages; $27.95 and £20.95

Buy it at
Amazon.com
Amazon.co.uk

Wild Nights: Nature Returns to the City
By Anne Matthews

North Point; 224 pages; $22. Flamingo; £14.99

office space into a restricted area and maximising returns on the investment. Rather, they symbolise man's domination of his environment, tangible trophies of a world where everything seems possible given self-belief and a ready source of capital. Though a latecomer to the game, Manhattan, with its restricted space and a bedrock of hard mica schist, was the perfect place to achieve immortality by building as high as physics would allow.

F.W. Woolworth was the first businessman to erect a true skyscraper to commemorate himself, and in 1929 Al Smith, a former governor of New York, sought to outreach him. “How many millions might a man be willing to spend to raise his ego a quarter mile high? How much to lay claim to the heart and soul of New York City?” asks Mitchell Pacelle in “Empire”, his deadpan account of the still unresolved struggle for control of Smith's creation, the Empire State Building. The drama of ambition, vanity and hubris could be set nowhere but in a city where the drive for status and celebrity seems to override reason. The cast includes Donald Trump, Leona Helmsley and the late Hideki Yokoi, an erratic Japanese tycoon with a family of feuding children. Their bluster, temperamental outbursts, one-line putdowns and endless deviousness, all meticulously recorded by Mr Pacelle, seem to owe more to an overwritten Hollywood screenplay than to life. But in New York of all places no one is surprised by the narrowness of the line between the real and the incredible.

Buy it at
Amazon.com
Amazon.co.uk

New Immigrants in New York
Edited by Nancy Foner

Columbia University Press; 288 pages; $49.50 and $22 (paperback); £33 and £15

Buy it at
Amazon.com
Amazon.co.uk

In “Wild Nights” Anne Matthews makes the familiar strange by applying a naturalist's eye to the concrete jungle. She assembles a remarkable cast of local fauna—coyotes, herons, parrots, falcons, racoons, sea turtles and wild turkeys to name a few—which turn out to share their habitat with unsuspecting urbanites. New York must be doing something right to have attracted so many animals, and in such variety. But the environment has its hazards. At the very start, Ms Matthews vividly describes the World Trade Centre's fatal attraction: every morning on the pavement you could find dead or injured birds that had crashed into—or exhausted themselves flying round—the towers. When at the end she turns to the city's human side, she foresees conflict between rich and poor, as well as ecological disaster brought on by greed and stupidity.

Oddly, New York, once you pierce its iconic crust, is perhaps the least suitable place to make a strike against those aspects of American life that the September terrorists affected to despise. Far from being a repository of prejudice and cultural imperialism, it has for two centuries provided a home, a living and a means of expression for millions of immigrants of many nationalities and faiths. The ten academic studies in “New Immigrants in New York” describe how today's new citizens—among them Jews from Russia, Muslims from West Africa, Christians from the Caribbean—have changed the city, and how it has changed them. By 1999, about a third of New Yorkers were born abroad, and the proportion is climbing as longstanding residents continue to move out to the suburbs. The volume's editor, Nancy Foner, foresees a further increase in immigration, especially from Asia and the Caribbean.

Nobody can be strictly held to predictions about New York made before the attacks. Mr Fogelson was optimistic about the future of its downtown area because it is one of the few in America that retain substantial residential as well as commercial districts; but the atrocity might make it a less desirable place to live. Some past predictions have stood up. Mr Fogelson includes a forecast from *New York World*, drawn in December 1900, of how Manhattan would appear in 1999. It showed a group of skyscrapers which, though differing in detail from what was built, included two massive matching towers approximating to the late World Trade Centre.

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About sponsorship

Doing business in China

Waiting, waiting

Jan 10th 2002
From The Economist print edition

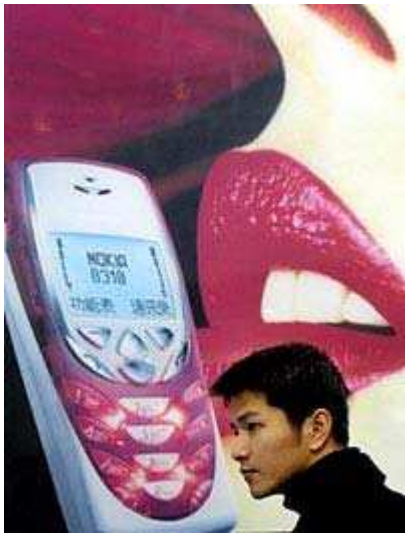
CHINA'S accession to the World Trade Organisation has released a deluge of new books. With exceptions, these tend to be either promises of China's market potential or contrarian rebuttals.

The China Dream: The Elusive Quest for the Greatest Untapped Market
By Joe Studwell

Atlantic Monthly Press; 384 pages; $26. Profile Books; £15 (paperback)

Buy it at
Amazon.com
Amazon.co.uk

AP



"The China Dream" by Joe Studwell, a former contributor to the Economist Intelligence Unit and to *The Economist* in China, is one of the exceptions. It chronicles how China's putative riches have dazzled and mostly disappointed foreigners. Whether the promise once lay in adding an inch to the tail of every shirt in China, or now in selling a life-insurance policy to every household; whether the "market" was once an awesome one of a few hundred million, or now of 1.3 billion; the greed stayed constant through the decades.

Mr Studwell avoids the mistake of declaring outright that China is the next Dutch-tulip disaster waiting to happen. Instead, he insinuates, with detailed anecdote, that history provides no basis for thinking that the China dream of foreign investors is any more than that—a dream.

With more discipline—fewer digressions, clearer sign-posting—"The China Dream" could have been better. It is encyclopedic, long-winded in parts, and certainly requires patience. Still, for all those interested in investing or doing business in China, the book makes enlightening and sobering reading. Some may even one day agree with the businessman overheard by Mr Studwell in a Hong Kong lift: "Oh no. China's a graveyard for us all. We've all fucked up China."

ANDREAS KLUTH

Our policy is to identify the reviewer of any book by or about anyone closely connected with *The Economist*

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New Irish fiction

Green horizons

Jan 10th 2002
From The Economist print edition

WRITTEN in a minor key, John McGahern's new novel, his first for 12 years, is an elegiac hymn to a timeless rural Ireland that has all but disappeared. His central characters, Joe and Kate Ruttledge, have returned from sophisticated careers in London to their roots in a farming community beside a lake. Now in late middle age, they attempt, like Levin in “Anna Karenina”, to recapture the sense of primal identification with the landscape that comes so naturally to those who have never been away.

That They May Face the Rising Sun
By John McGahern

To be published in America by Knopf in March as “By the Lake”; $24
Faber and Faber; 298 pages; £16.99.

Buy it at
Amazon.co.uk

Chief among these is Jamesie, who is so in tune with nature that he hears the first cuckoo before anyone else. The downside of his appealing gentleness is a sort of moral passivity that makes him blindly accepting of the world and his place in it. He treats Jimmy Joe, a sinister IRA leader, with unthinking atavistic deference, and can't cope with the disruption of his tragic son's return from England.

Other characters include Bill Evans, an elderly retainer whose brutal childhood has left him with the stunted soul of a peasant in a Russian novel; John Quinn, the local Don Giovanni, whose second wife repays him for his cruelty against women; and Joe Ruttledge's illiterate old uncle who keeps £43,000 ($62,000) in a tin box and sums up his philosophy as follows: “The rain comes down. Grass grows. Children grow old. That's it.”

Meanwhile, the novelist treads a subtle line between reinforcing this old mindset and revealing its limitations. Intellectually, he may be on the side of modernity, but emotionally and aesthetically he is seduced by the idea of history as a natural cycle which is both forever changing and always the same. The novel's structure, which follows the seasons over the course of a year, is not driven by a linear sense of plot. With deceptive simplicity, the characters are presented, rather than analysed. They seem as necessary to the landscape as the herons and swans on the lake. In one sense, they are archetypes, yet Mr McGahern manages to give them the psychological subtlety of real individuals.

This is a book to surrender yourself to. If you give in to its measured ebb and flow, you will find yourself in an intense, poetic world in which the simplest objects—a maggoty sheep, a half-finished shed—take on a quiet but magical luminosity.

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Fashion on display

French dressing

Jan 10th 2002 | PARIS
From The Economist print edition

Parisians really care about dressing, and it shows in two new exhibitions

ROME may be more stylish, Tokyo more eccentric, New York more affluent, but for beautiful clothes perfectly worn, Paris beats all the rest. Young girls in flamboyantly textured sweaters with narrow black leather trousers look sexy, chic and liberated, all at once. An older woman with ramrod deportment wears a sleek curving jacket over a silk shirt in the identical blonde shade, with a plain black skirt and neat narrow shoes. Despite her age, she looks eye-catchingly elegant and comfortable, which is a rare combination.

When Yves Saint-Laurent announced on January 7th that he was closing his couture house, one long-standing client exclaimed: “I'll have to go naked.” Paris takes clothes seriously: and not only because the couture industry is a major source of money and prestige. Two floors of the Musée des Arts Décoratifs, next door to the Louvre, are devoted to fashion and fabrics. A series of different exhibitions offers ever-changing variations on the theme. The current display, “Jouer avec la lumière”, is devoted to the effects of light on the texture and colour of materials. Garments from five centuries are displayed under brilliant circling spotlights, in whose sharp white beams turquoise becomes pink, brocade flowers shift from dark to light, positive to negative, and even matt black takes on a sheen that subtly outlines the curves of the body.

One can see how much technical expertise is needed to find the exact fabric to enhance the couturier's design. Material can be feathered, beaded, sequinned, pleated, ruffled, tucked, draped, stretched, each process transforming its flat woven surface into something playful and alluring or ceremonial and awe-inspiring. There are military uniforms so heavily encrusted with braid that they look like armour; ecclesiastical robes that, although piously embroidered with scenes from the life of Christ, deliver a message of overweening wealth and power. There is a curved and embroidered gold brocade waistcoat made in 1790 for the Marquis de Montigny. He was guillotined three years later; his gorgeous coat lives on.

Also showing in Paris at the Pavillon des Arts, Les Halles, until February 24th, is an exhibition of film costumes. No ordinary woman could wear these gowns in everyday life—like the stars who modelled them, they are designed for the eye of the camera and the rapt gaze of an audience of millions. The heavy, trailing dresses worn by Kiri Te Kanawa in Joseph Losey's “Don Giovanni” are here, along with one of Vivien Leigh's frocks from “Gone With the Wind”. The robes created for Bette Davis in “The Virgin Queen”, beaded and gilded and edged with lace, are here too, along with a demure black suit to emphasise Jeanne Moreau's smouldering sexuality. There are even two scratchy-looking breastplates worn by Theda Bara as a vamp. These garments too were created with light in mind—the dazzling lights of a studio, picking up marabou for luxury, spangles for glamour, chiffon for temptation and gilding for royalty.

New York has the Costume Institute. The Metropolitan Museum of Art has exhibited clothes worn by Jackie Kennedy, and the work of fashionable dress designers: but such events hint at tit-for-tat. The designer is given iconic status; the museum receives a sizeable donation. In London, the Victoria and Albert Museum has a lavish collection of old clothes, but these are displayed mainly for the light they shed on social history. Florence has a museum devoted to the witty and inventive shoe designs of Salvatore Ferragamo, but situated as it is in that company's flagship store, it becomes up-market advertising. Adidas has a museum in Nuremberg devoted to sports shoes—including boxing boots worn by Mohammed Ali—but it is the history of sporting victories rather than footwear itself that is being celebrated. Only in Paris are exhibitions of costume about fashion; the genius of couture allied to the art of self-adornment.

Paris has long nurtured artisans, seamstresses, embroiderers, designers and models, who care passionately about these costly, ephemeral garments. It's also a city of women (and men) with the taste and money to wear them, who appreciate clothes for what they can be—not vulgar displays of wealth but works of art. In Paris, dressing matters; and what makes the time and expense involved worthwhile, apart from the boost to self-confidence, is the critical and informed audience that appraises every outfit.

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Popular science

The bigger picture

Jan 10th 2002
From The Economist print edition

THE success of Dava Sobel's 1995 bestseller, “Longitude”, demonstrated that books on the history of science could appeal to a mass audience, provided they come in the right packaging: a strong narrative, a sympathetic protagonist, novelistic pace and structure and, crucially, not too many pages. A flood of similar niche-history books has since followed, concentrating on the achievements of particular individuals and the stories behind key scientific and technological breakthroughs. Books providing the bigger picture, of the kind favoured by Victorian popularisers of science, have fallen from favour. But two new popular histories of science, one by Thomas Crump and one by Gerard Piel, are bucking the trend.

A Brief History of Science: As Seen Through the Development of Scientific Instruments
By Thomas Crump

Carroll & Graf; 384 pages; $28. Constable; £20

Buy it at Amazon.co.uk

The Age of Science: What Scientists Learned in the Twentieth Century
By Gerard Piel

Basic Books; 480 pages; $40 and £28.99

Buy it at Amazon.co.uk

Mr Crump views the history of science through the prism of scientific instruments. He notes that science really got going only after the introduction of devices, such as the telescope and microscope, that enabled people to observe and measure aspects of the universe beyond their everyday experience. Early modern scientists, such as Galileo, were then able to overthrow the incorrect theories of the Greeks and make rapid progress in optics, physics, chemistry and medicine.

This approach proves to be slightly less helpful than it sounds, however, because Mr Crump's “instruments” include not just clocks and quadrants, but also steam engines, electric motors, rockets and computers—in short, almost all of technology. That said, he provides lively summaries of the progress in different fields, and succeeds in breathing new life into familiar stories. He ends with a chapter on modern “big science”, and the use of ever larger accelerators in order to reveal the structure of the universe on ever smaller scales. These machines are, in Mr Crump's view, the ultimate scientific instruments.

Mr Piel, who revived *Scientific American* in 1948, concentrates on science's progress during the 20th century. After a quick exposition of scientific method, priority, instrumentation and sociology, he neatly sums up recent progress in the subatomic, cosmological, biological, geological and anthropological realms. Inevitably, explaining what was discovered during the 20th century requires Mr Piel to summarise prior work, so that his book functions as an excellent synopsis of the history of science in general.

Mr Piel's book is better structured than Mr Crump's, and its conclusion—that technology's greatest promise, and greatest challenge, is now to tackle global inequality—provides a satisfying sting in the tail by acknowledging the broader social context within which scientific research takes place. Mr Piel's book may lack a hero, a villain and a melodramatic plot, but it provides a sweeping overview of the kind that a niche history cannot, and deserves to find a wide audience.

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Bestsellers in America and Britain

What the world is reading

Jan 10th 2002
From The Economist print edition

From Hollywood wives to Cambridge University's most famous physicist

AMERICA is still in a sombre mood. Non-fiction readers in search of insights into history and current affairs have been buying up the two big presidential biographies of the season—the lives of John Adams and Theodore Roosevelt—and Barbara Olson's study of the Clintons' exit from the White House. British readers are following suit, leavening their regular diet of books by footballers, pop stars and celebrity chefs with some popular cosmology, Stephen Hawking's “The Universe in a Nutshell”.

The American fiction list, meanwhile, is still dominated by holiday beach-reads and no-brainers. Jonathan Franzen's “The Corrections” may not be the literary masterpiece it's cracked up to be, but turning down an endorsement from Oprah Winfey's book club has clearly done nothing to slow down sales. In Britain only one novel of real distinction—Ian McEwan's “Atonement”—is selling well.

What both our fiction lists omit, however, are the unstoppable Harry Potter books, and the more recent resurgence of J.R.R. Tolkein's “Lord of the Rings” books. The craze is especially rampant in America, where the normally peace-loving hobbits have laid siege to four of the top ten spots in *Publishers Weekly*'s mass-market paperback list.

Bestsellers

	AMERICAN FICTION	AMERICAN NON-FICTION
1	**Skipping Christmas** *by John Grisham* Easier said than done	**John Adams** *by David McCullough* Biography of America's second president
2	**Violets are Blue** *by James Patterson* Latest Alex Cross mystery	**The No-Spin Zone** *by Bill O'Reilly* Latest collection from TV commentator
3	**The Corrections** *by Jonathan Franzen* Oprah-defying literary sensation	**Jack** *by Jack Welch* From the locker room to the GE boardroom
4	**Last Man Standing** *by David Baldacci* Political thriller	**Theodore Rex** *by Edmund Morris* Biography of America's 26th president
5	**One Door Away from Heaven** *by Dean Koontz* Action, adventure and extra-terrestrials	**The Final Days** *by Barbara Olson* Leaving the White House
6	**Jackdaws** *by Ken Follett* Second world war thriller	**The Prayer of Jabez** *by Bruce Wilkinson* How to live a blessed life
7	**He Sees You When You're Sleeping** *by Mary and Carol Higgins Clark* Angel earns his wings	**The Universe in a Nutshell** *by Stephen Hawking* Pop science plus fab pictures
8	**The Best-Loved Poems of Jacqueline Kennedy Onassis** *edited by Caroline Kennedy* Former first lady's favourite verse	**How I Play Golf** *by Tiger Woods* A champion shares his secrets
9	**Black House** *by Stephen King and Peter Straub* Collaborative chiller	**Guinness World Records 2002** *published by Guinness World Records* Remarkable facts and feats
10	**Desecration** *by Tim LaHaye and Jerry B. Jenkins* Ninth instalment in the Left Behind series	**Self Matters: Creating Your Life from the Inside Out** *by Phillip C. McGraw* Looking out for number one

	BRITISH FICTION	BRITISH NON-FICTION
1	**Faceless** *by Martina Cole* Out of jail and looking for revenge	**Happy Days with the Naked Chef** *by Jamie Oliver* Celebrity chef's recipes
2	**Atonement** *by Ian McEwan* Perils of storytelling	**Delia's How to Cook: Book 3** *by Delia Smith* Another celebrity cook's recipes
3	**Isle of Dogs** *by Patricia Cornwell* Latest offering from veteran thriller writer	**Billy** *by Pamela Stephenson* Biography of Billy Connolly by his wife
4	**Hollywood Wives: The New Generation** *by Jackie Collins* LA romp	**Guinness World Records 2002** *published by Guinness World Records* Remarkable facts and feats
5	**Last Light** *by Andy McNab* Political thriller	**Nigella Bites** *by Nigella Lawson* Tasty offerings from the domestic goddess
6	**The Last Hero** *by Terry Pratchett* Latest addition to Discworld series	**Robbie Williams: Somebody, Someday** *by Robbie Williams* Pop star's memoirs
7	**Dead Famous** *by Ben Elton* Reality TV meets murder mystery	**Blessed: The Autobiography** *by George Best* The ball versus the bottle
8	**Only Dad** *by Alan Titchmarsh* Tuscan holiday turns family life upside down	**Learning to Fly** *by Victoria Beckham* Another pop star's memoirs
9	**Skipping Christmas** *by John Grisham* Easier said than done	**The Universe in a Nutshell** *by Stephen Hawking* Pop science plus fab pictures
10	**Black House** *by Stephen King and Peter Straub* Collaborative chiller	**Frank Skinner** *by Frank Skinner* Funny man tells all

Sources: *Publishers Weekly*; Whitaker BookTrack

Descriptions by *The Economist*

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About sponsorship

Correction

Jan 10th 2002
From The Economist print edition

Ansel Adams was known for photographing the Sierra Nevada, not the Rocky Mountains, as stated in *The Economist* on January 5th.

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About sponsorship

Freddy Heineken

Jan 10th 2002
From The Economist print edition

Alfred “Freddy” Heineken, a brewer and salesman, died on January 3rd, aged 78

AP

SERIOUS beer drinkers will tell you that beers differ from place to place, as wines and cheeses do. That is true, but most people are content to accept whatever beer is available as long as it is pleasant and clean. The world's most widely drunk beer, made by various brewers, is a mild version of a lager that was created by Czechs in Pilsen in 1842. The one popularised by Freddy Heineken is sniffed at by connoisseurs for, they say, not having a lot of character, but it is difficult to dislike and goes down smoothly. The Dutch firm grew rapidly to become one of the global giants in brewing, its beer selling in some 170 countries, rivalled only in size by Anheuser-Busch and Miller in the United States and Belgium's Interbrew.

If it had a secret ingredient it was Mr Heineken's talent as a salesman. During two years in New York as a young man he fell under the spell, as he put it, of American advertising and marketing. It was liberating, especially after the staid world of the Netherlands. Advertising lived on ideas, some of them quite mad ones. That was their appeal. Mr Heineken never rejected an idea simply because it seemed mad. Some of his colleagues thought it a little mad when he proposed to sell Heineken beer overseas in green-glass bottles. Why not brown bottles, the usual containers for beer? Green would be more distinctive, Mr Heineken said. The firm had to sell distinction.

In its green bottle, with “export” on the label, and priced to match its suggestion of exclusivity, it caught on in the United States and elsewhere as a beer for special occasions. People were amused by, and perhaps even believed, its claim to be the beer that “refreshes the parts that other beers cannot reach”. Mr Heineken said he wasn't really selling beer. “I was selling warmth, gaiety.”

The friendly traveller

Freddy Heineken's father was also a clever salesman. He taught Freddy that beer travels well. It is remarkably neutral, with no threatening nationalistic message, no enemies. When in the second world war the Japanese occupied the Dutch East Indies, now Indonesia, they were happy to drink Heineken beer. Heineken senior was the first foreign brewer to ship beer to the United States after prohibition ended in 1933. He was also a boozer, and in 1942, possibly under the strain of living in a country under German occupation, he sold most of the family's shares in the brewery that could trace its roots back to 1592.

In the 1950s, when Freddy succeeded his father on the Heineken board, he borrowed enough money to buy a controlling share. He was chief executive from 1971 to 1989, guiding the company to great prosperity, buying out competitors or taking stakes in them, and becoming the richest man in the Netherlands. He retained the chairmanship of Heineken's holding group until last November.

It amused him to claim that he was a financial dunce, uninterested in such matters as debt-to-equity ratios. Had his father not floated the company, he said, he would have kept it private. He said he relied on intuition, a sense of the market: more female drinkers, the move to beer among wine drinkers, the demand for low-calorie drinks. In the end a healthy balance sheet and steady profits were what matter, he said soothingly. Unsoothed financial experts believed the share price should have been higher, and they will be watching for any changes in the company following the death of its guiding light.

He was born Alfred, but the name Freddy stuck from childhood and even Heineken shares are called

Freddies. The name seemed to suit his engaging personality, his love of life and his rough sense of humour. A woman journalist he was showing around his Amsterdam headquarters, called the Pentagon, was mildly surprised by a picture in a bedroom next to his office of a naked woman with a cat, entitled “The Woman With Two Pussies”. The Dutch loved Freddy stories, and he did his best to oblige them. In 1983, after being released from three terrifying weeks in the hands of kidnappers, he joked that he had never been so relieved to see so many policemen all at once.

It may be that eventually Freddy Heineken became a little bored with the beer he made famous. He was careful not to say so. For a Dutchman to say he was bored with beer would be akin to knocking Rembrandt. But he did say that had he not been a brewer he would have liked to have made a career in advertising. The “refreshes the parts” campaign was said to be his idea. One of his wilder proposals, never tried, was to sell beer in square bottles. Instead of being thrown away, the “world bottle” as he called it could be used as a brick to build homes in poor countries, or even rich ones.

He supported research into saving the ozone layer and was interested in communication with other possible worlds. He set up a foundation to promote the arts. He was sympathetic to the European Union's aim of ending war by hobbling the old troublemakers. But a better plan, he said, would be to divide up the continent into numerous states—75, he suggested—each with the same number of inhabitants. Quite mad, said his critics, as though that were a reason for rejecting it.

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Overview

Jan 10th 2002
From The Economist print edition

America's unemployment rate climbed from 5.6% in November to 5.8% in December, its highest level since April 1995. The jobless rate is now 1.9 percentage points above its low of 3.9% in 2000. Wages rose by 4.1% in the year to December.

The **euro area**'s economic conditions may be improving. The economic sentiment index rose to 98.8 in December, up from 98.6 in November. Consumer confidence led the way, while industry, construction, and retail trade conditions remained stable. In November, producer prices fell by 1.3% and unemployment was unchanged at 8.5%. Retail sales fell by 1.1% in the month to October.

Unemployment in **Germany** also held steady at 9.5% in December. German factory orders rose more strongly than expected in November, as increasing foreign demand offset weakness in the domestic market, brought on by the country's economic slowdown. The DAX index rose to a four-month high.

Switzerland's unemployment is creeping up. In December, 2.4% of the labour force was unemployed, compared with 2.1% in November.

Canada's producer prices fell by 1.9% in the year to November, reflecting lower energy prices and a slowing economy.

The **Australian** dollar rose by 2.3% in trade-weighted terms against the American dollar, to its highest level for almost a year.

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Output, demand and jobs

Jan 10th 2002
From The Economist print edition

% change at annual rate

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr	1 year	2001	2002	latest	latest	latest	year ago
Australia	+ 4.6	+ 2.5 Q3	+ 2.1	+ 3.2	– 0.4 Q2	+ 5.8 Q3	6.7 Nov	6.3
Austria	+ 0.2	+ 1.2 Q2	+ 1.1	+ 1.0	– 1.3 Oct	– 4.8 Sep	4.0 Nov	3.6
Belgium	– 1.2	+ 0.9 Q3	+ 1.2	+ 1.0	+ 0.2 Oct*	– 2.5 Oct	10.8 Dec*	10.6
Britain	+ 1.7	+ 2.2 Q3	+ 2.2	+ 1.8	– 4.2 Oct	+ 7.1 Nov	5.1 Oct†	5.5
Canada	– 0.8	+ 0.8 Q3	+ 1.4	+ 1.2	– 6.0 Oct**	– 0.9 Sep	7.5 Nov	6.9
Denmark	+ 3.5	+ 1.4 Q3	+ 1.1	+ 1.3	nil Oct	+ 0.9 Oct	5.0 Nov	5.5
France	+ 1.9	+ 2.0 Q3	+ 2.0	+ 1.3	– 0.3 Oct	– 1.3 Oct	9.0 Nov	9.1
Germany	– 0.6	+ 0.3 Q3	+ 0.7	+ 0.6	– 4.0 Oct	+ 1.1 Oct	9.5 Dec††	9.3
Italy	+ 0.6	+ 1.9 Q3	+ 1.8	+ 1.0	+ 0.9 Oct	– 0.3 Oct	9.3 Oct	10.0
Japan	– 2.2	– 0.5 Q3	– 0.4	– 1.2	–13.1 Nov	– 2.1 Sep	5.5 Nov	4.8
Netherlands	– 1.4	+ 0.4 Q3	+ 0.9	+ 1.0	– 6.3 Oct	– 2.4 Sep	2.0 Nov§	2.6
Spain	+ 1.1	+ 2.8 Q3	+ 2.6	+ 1.8	+ 3.0 Oct	na	13.0 Nov	13.6
Sweden	+ 0.2	+ 0.4 Q3	+ 1.3	+ 1.4	– 5.7 Oct	+ 2.1 Oct	3.7 Nov*	3.9
Switzerland	+ 0.1	+ 0.8 Q3	+ 1.5	+ 0.9	+ 1.9 Q3*	+ 4.8 Oct	2.4 Dec*	1.9
United States	– 1.1	+ 0.6 Q3	+ 1.1	+ 0.7	– 5.9 Nov	+ 5.4 Nov	5.8 Dec	4.0
Euro area	+ 0.4	+ 1.3 Q3	+ 1.5	+ 1.0	– 2.7 Oct	– 0.5 Oct	8.5 Nov	8.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 5.0	nil Q3	na	na	– 4.9 Nov	+ 3.3 Sep	8.8 Nov*	8.7
Greece	na	+ 4.4 Q3	na	na	+ 2.0 Oct*	+ 7.5 Sep	na	na
Iceland	na	+ 3.62000	na	na	+ 2.5 2000	na	1.4 Oct	1.1
Ireland	na	+ 9.2 Q2	na	na	– 5.8 Oct	+ 3.2 Oct	4.1 Nov	3.7
Luxembourg	na	+ 8.52000	na	na	+ 7.8 Sep	+ 9.5 Aug	2.7 Oct	2.5
New Zealand	+ 2.8	+ 2.1 Q3	na	na	+ 3.5 Q2*	+ 6.3 Q3	5.2 Q3	5.8
Norway	+ 3.8	+ 1.9 Q3	na	na	– 2.5 Nov	+ 5.4 Nov	3.6 Q3	3.5
Portugal	+ 1.6	+ 2.5 Q2	na	na	+ 2.9 Nov	+ 3.3 Oct	4.0 Q3	4.0

*Not seasonally adjusted. †Aug-Oct; claimant count rate 3.2% in Nov. §Sep-Nov. **New series. ††EU harmonised rate 8.0% in Dec.

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Prices and wages

Jan 10th 2002
From The Economist print edition

% change at annual rate

	Consumer prices* latest		Consumer prices* year ago	The Economist poll consumer prices forecast 2001	The Economist poll consumer prices forecast 2002	Producer prices* latest		Producer prices* year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 2.5	Q3	+ 6.1	+ 4.2	+ 2.4	+ 2.4	Q3	+ 7.2	+ 4.0	Q3	+ 6.5
Austria	+ 2.0	Nov	+ 3.1	+ 2.5	+ 1.4	– 1.1	Dec	+ 4.4	+ 2.7	Nov	+ 2.2
Belgium	+ 2.2	Dec	+ 2.5	+ 2.5	+ 1.5	– 2.9	Oct	+12.0	+ 3.1	Q4	+ 1.6
Britain	+ 0.9	Nov	+ 3.2	+ 1.9	+ 1.9	– 1.0	Nov	+ 2.7	+ 4.4	Oct	+ 4.2
Canada	+ 0.7	Nov	+ 3.2	+ 2.6	+ 1.5	– 1.9	Nov	+ 5.3	+ 2.4	Oct	+ 2.4
Denmark	+ 2.2	Dec	+ 2.4	+ 2.3	+ 1.9	– 1.2	Nov	+ 6.7	+ 4.3	Q3	+ 3.8
France	+ 1.4	Dec	+ 1.6	+ 1.7	+ 1.1	– 2.3	Nov	+ 6.3	+ 4.1	Q3	+ 5.3
Germany	+ 1.7	Dec	+ 2.2	+ 2.4	+ 1.1	– 1.9	Nov	+ 6.4	+ 2.2	Oct	+ 2.2
Italy	+ 2.4	Nov	+ 2.7	+ 2.7	+ 1.6	– 1.3	Nov	+ 6.7	+ 2.8	Nov*	+ 1.8
Japan	– 1.0	Nov	– 0.8	– 0.7	– 1.0	– 0.8	Nov	+ 0.4	– 0.8	Nov*	nil
Netherlands	+ 4.2	Nov	+ 3.0	+ 4.8	+ 2.2	– 2.3	Nov	+ 9.0	+ 4.6	Oct	+ 3.3
Spain	+ 2.7	Nov	+ 4.1	+ 3.6	+ 2.2	– 0.8	Nov	+ 5.7	+ 3.6	Q3†	na
Sweden	+ 2.7	Nov	+ 1.7	+ 2.5	+ 1.9	– 0.9	Nov	+ 4.8	+ 2.5	Oct*	+ 3.0
Switzerland	+ 0.3	Dec	+ 1.5	+ 1.0	+ 0.6	– 2.0	Nov	+ 3.0	+ 1.3	2000	+ 0.3
United States	+ 1.9	Nov	+ 3.4	+ 2.9	+ 1.5	– 1.1	Nov	+ 3.8	+ 4.1	Dec	+ 4.4
Euro area	+ 2.1	Nov	+ 2.9	+ 2.6	+ 1.4	– 1.3	Nov	+ 6.4	+ 3.0	Q2	+ 2.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.6	Nov	+ 3.3	na	na	– 4.4	Nov	+ 8.8	+ 4.5	Q3*	+ 4.9
Greece	+ 2.4	Nov	+ 4.2	na	na	+ 1.7	Sep	+ 9.2	na		na
Iceland	+ 8.6	Dec	+ 4.2	na	na	+ 8.4	Dec	+ 3.5	+ 9.4	Nov	+ 7.6
Ireland	+ 3.8	Nov	+ 7.0	na	na	+ 0.5	Nov	+ 5.9	+ 8.7	Q3*	+ 7.4
Luxembourg	+ 2.1	Nov	+ 3.7	na	na	+ 0.9	Sep	+ 6.1	+ 3.4	Aug*	+ 7.0
New Zealand	+ 2.4	Q3	+ 3.0	na	na	+ 6.2	Q3	+ 8.4	+ 2.0	Q3	+ 1.5
Norway	+ 1.8	Nov	+ 3.2	na	na	–23.2	Nov	+ 6.6	+ 4.6	Q3*	+ 4.2
Portugal	+ 3.9	Nov	+ 3.8	na	na	– 7.9	Nov	+16.8	+ 2.4	Apr*	na

*Not seasonally adjusted. †New series.

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Economic forecasts

Jan 10th 2002
From The Economist print edition

Each month *The Economist* surveys a group of forecasters and calculates the average of their predictions for economic growth, inflation and current-account balances for 15 countries and the euro area. The table also shows the highest and lowest projections for growth. The previous month's forecasts, where different, are shown in brackets. Our panel is slightly more optimistic about America's growth prospects for 2002, raising its forecast to 0.7%. However, Japan's GDP is now expected to contract by 1.2%, following an estimated drop of 0.4% in 2001. At the other extreme, Australia is tipped to have the fastest growth (3.2%) this year. Inflation forecasts for 2002 have been trimmed in nine economies. Inflation is forecast to fall to 1.5% in America and to 1.4% in the euro area; Japanese consumer prices are expected to decline by 1.0%.

January averages (previous month's, if changed)

	Real GDP, % change				Consumer prices % increase		Current account % of GDP	
	Low/high range		average					
	2001	2002	2001	2002	2001	2002	2001	2002
Australia	1.5/2.5	2.2/3.8	2.1	3.2	4.2	2.4	-2.3(-2.5)	-2.8 (-3.1)
Austria	-0.6/1.8	0.2/1.5	1.1 (1.4)	1.0 (1.1)	2.5	1.4 (1.5)	-2.5(-2.6)	-2.2 (-2.4)
Belgium	1.0/1.6	0.1/1.6	1.2 (1.3)	1.0 (1.1)	2.5	1.5 (1.6)	3.9 (4.0)	4.2
Britain	1.9/2.4	1.4/2.1	2.2	1.8 (1.7)	1.9 (2.0)	1.9 (2.1)	-1.7	-2.2
Canada	1.2/2.2	0.3/2.9	1.4	1.2	2.6	1.5 (1.7)	2.7 (2.9)	1.7 (1.9)
Denmark	0.4/1.5	0.8/1.8	1.1 (1.2)	1.3	2.3	1.9	2.5 (2.2)	2.1 (1.8)
France	1.9/2.1	0.6/2.0	2.0	1.3 (1.2)	1.7	1.1 (1.2)	1.6 (1.4)	1.5 (1.4)
Germany	0.5/0.8	0.2/0.9	0.7	0.6 (0.7)	2.4 (2.5)	1.1 (1.2)	-0.6(-0.7)	-0.3 (-0.4)
Italy	1.6/1.9	0.5/1.6	1.8	1.0 (1.1)	2.7	1.6	-0.2	0.2 (nil)
Japan	-0.9/-0.1	-1.8/-0.2	-0.4 (-0.6)	-1.2 (-0.8)	-0.7	-1.0 (-0.8)	2.0 (2.7)	2.0 (1.9)
Netherlands	0.7/1.2	0.4/1.7	0.9 (1.0)	1.0 (1.1)	4.8 (4.7)	2.2 (2.1)	3.7 (3.9)	3.9 (4.0)
Spain	2.5/2.8	1.4/2.5	2.6	1.8	3.6 (3.7)	2.2 (2.3)	-2.5	-2.3 (-2.4)
Sweden	1.0/2.0	0.5/3.1	1.3 (1.6)	1.4 (1.6)	2.5 (2.4)	1.9	2.4 (2.2)	2.3 (2.1)
Switzerland	1.3/1.7	0.0/1.9	1.5 (1.6)	0.9	1.0	0.6	10.7(10.6)	11.1 (11.0)
United States	1.0/1.3	0.2/1.6	1.1 (1.0)	0.7 (0.6)	2.9	1.5 (1.6)	-4.1	-4.0 (-3.9)
Euro area	1.3/1.6	0.6/1.4	1.5	1.0	2.6	1.4 (1.5)	-0.2(-0.3)	-0.1 (-0.2)

Sources: ABN Amro, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, Merrill Lynch, J.P. Morgan Chase, Morgan Stanley Dean Witter, Nordbanken, Decision Economics, Royal Bank of Canada, Schroder Salomon Smith Barney, Scotiabank, Shinsei Bank, UBS Warburg

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Money and interest rates

Jan 10th 2002
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Jan 9th 2002)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+21.1	+14.0	Nov	4.30	5.95	4.43	5.90	5.35	6.84
Britain	+ 7.8	+ 8.2	Nov	4.03	5.75	4.80	4.96	4.79	6.15
Canada	+15.4	+ 4.9	Nov	1.91	5.24	3.06	5.33	5.40	7.08
Denmark	+ 7.8	+ 6.4	Nov	3.75	5.35	4.14	5.04	5.04	7.05
Japan	+12.9	+ 3.2	Nov	0.03	0.44	0.09	1.38	1.58	1.47
Sweden	+ 7.1	+ 6.2	Nov	3.72	4.07	4.44	5.20	4.81	5.23
Switzerland	+ 1.9	+ 4.8	Nov	1.71	3.40	2.47	3.29	3.39	4.38
United States	+ 6.5	+14.0	Nov	1.75	5.40	3.02	5.06	5.09	6.77
Euro area†	+ 6.1	+ 8.0	Nov	3.33	4.78	3.65	4.82	4.72	5.36

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.50%, Japan No.235 1.38%. Central bank rates: US fed funds 1.75%, ECB refinancing 3.25%, BOJ overnight call 0.001%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, DRI-WEFA, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Jan 10th 2002
From The Economist print edition

1995=100

	Jan 1st	Jan 8th*	% change on one month	% change on one year
Dollar index				
All items	65.4	67.5	+ 3.0	- 7.6
Food	67.2	69.3	+ 1.7	- 5.2
Industrials				
All	62.8	65.0	+ 4.8	-10.8
Nfa†	59.5	59.7	+ 1.6	- 9.6
Metals	65.6	69.5	+ 7.3	-11.7
Sterling index				
All items	70.8	73.8	+ 2.5	- 4.4
Euro index				
All items	96.5	99.6	+ 2.7	- 2.4
Yen index				
All items	91.2	95.2	+ 8.1	+ 5.2
Gold				
$ per oz	276.80	278.85	+ 2.2	+ 4.3
West Texas Intermediate				
$ per barrel	20.59	20.84	+15.9	-24.8

*Provisional. †Non-food agriculturals.

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Stockmarkets

Jan 10th 2002
From The Economist print edition

Market indices

	Jan 9th	2001-02 high	2001-02 low	% change on one week	% change on record high	% change on Dec 31st 2000 in local currency	% change on Dec 31st 2000 in $ terms
Australia (All Ordinaries)	3,354.9	3,425.2	2,867.4	- 0.9	- 2.1	+ 6.3	+ 0.1
Austria (ATX)	1,114.4	1,245.8	1,014.3	- 1.7	-35.8	+ 3.8	- 1.7
Belgium (Bel 20)	2,678.1	3,030.4	2,322.6	- 1.8	-27.3	-11.5	-16.2
Britain (FTSE 100)	5,228.5	6,334.5	4,433.7	+ 0.2	-24.6	-16.0	-19.0
Canada (Toronto Composite)	7,775.8	9,348.4	6,513.1	+ 1.7	-31.7	-13.0	-18.1
Denmark (KBX)	223.3	294.3	197.8	- 1.1	-26.0	-15.6	-19.8
France (SBF 250)	2,982.4	3,820.2	2,335.3	+ 0.8	-32.1	-20.9	-25.1
(CAC 40)	4,587.0	5,998.5	3,652.9	+ 0.1	-33.7	-22.6	-26.7
Germany (Xetra DAX)	5,288.2	6,795.1	3,787.2	+ 2.3	-34.4	-17.8	-22.2
Italy (BCI)	1,446.8	1,948.4	1,082.9	+ 1.1	-33.7	-24.5	-28.5
Japan (Nikkei 225)	10,664.0	14,529.4	9,504.4	+ 1.2	-72.6	-22.6	-33.3
(Topix)	1,025.0	1,441.0	863.4	- 0.7	-64.5	-20.2	-31.2
Netherlands (AEX)	498.8	642.3	396.2	+ 0.3	-28.9	-21.8	-25.9
Spain (Madrid SE)	798.1	963.9	648.6	- 3.0	-30.4	- 9.4	-14.2
Sweden (Affarsvarlden Gen)	230.8	293.1	177.5	+ 1.4	-42.3	-16.9	-24.5
Switzerland (Swiss Market)	6,360.3	8,135.4	5,110.2	- 0.2	-24.4	-21.8	-23.8
United States (DJIA)	10,094.1	11,337.9	8,235.8	+ 0.2	-13.9	- 6.4	- 6.4
(S&P 500)	1,155.1	1,373.7	965.8	+ 0.0	-24.4	-12.5	-12.5
(Nasdaq Comp)	2,044.9	2,859.2	1,423.2	+ 3.3	-59.5	-17.2	-17.2
Europe (FTSE Eurotop 300)*	1,248.2	1,545.5	998.9	+ 0.4	-26.8	-18.6	-23.0
Euro area (FTSE Ebloc 100)*	1,097.2	1,404.1	843.6	- 0.2	-29.2	-21.2	-25.4
World (MSCI)†	1,004.6	1,249.2	856.6	- 0.2	-30.7	na	-17.7
World bond market (Salomon)‡	438.4	461.7	420.6	- 0.5	- 4.7	na	- 1.3

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Schroder Salomon Smith Barney World Government Bond Index, total return, in dollar terms.

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Trade, exchange rates and budgets

Jan 10th 2002
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths	Current account The Economist poll % of GDP, forecast 2001	Current account The Economist poll % of GDP, forecast 2002	Exchange rate trade-weighted† Jan 9th	Exchange rate trade-weighted† year ago	Currency units per $ Jan 9th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2001‡
Australia	+ 2.1 Nov	− 8.5 Q3	− 2.3	− 2.8	74.9	75.2	1.91	1.79	2.75	1.70	1.44	0.1
Austria	− 4.6 Sep	− 4.6 Oct	− 2.5	− 2.2	100.3	100.5	15.5	14.6	22.3	13.8	11.7	nil
Belgium	+ 11.0 Oct	+ 12.4 Sep	+ 3.9	+ 4.2	99.1	99.4	45.4	42.9	65.3	40.3	34.2	nil
Britain	− 47.2 Oct	− 17.7 Q3	− 1.7	− 2.2	106.9	105.0	0.69	0.67	–	0.62	0.52	1.1
Canada	+ 43.0 Oct	+ 23.9 Q3	+ 2.7	+ 1.7	75.7	79.6	1.60	1.50	2.30	1.42	1.20	2.8
Denmark	+ 7.4 Oct	+ 4.9 Oct	+ 2.5	+ 2.1	102.3	101.9	8.37	7.94	12.0	7.44	6.31	2.0
France	+ 0.9 Oct	+ 22.8 Oct	+ 1.6	+ 1.5	101.7	102.2	7.38	6.97	10.6	6.56	5.57	-1.5
Germany	+ 70.7 Nov	− 4.5 Nov	− 0.6	− 0.3	98.8	99.2	2.20	2.08	3.17	1.96	1.66	-2.5
Italy	+ 4.9 Oct	− 4.6 Sep	− 0.2	+ 0.2	72.6	72.9	2,179	2,059	3,136	1,936	1,644	-1.4
Japan	+ 74.9 Oct	+ 89.2 Oct	+ 2.0	+ 2.0	127.4	141.7	133	116	191	118	–	-6.4
Netherlands	+ 19.3 Oct	+ 11.1 Q3	+ 3.7	+ 3.9	98.0	98.4	2.48	2.34	3.57	2.20	1.87	1.1
Spain	− 38.4 Sep	− 15.1 Sep	− 2.5	− 2.3	74.3	74.5	187	177	270	166	141	nil
Sweden	+ 12.5 Nov	+ 5.8 Oct	+ 2.4	+ 2.3	75.8	79.6	10.39	9.43	15.0	9.23	7.84	3.8
Switzerland	+ 0.7 Nov	+ 25.4 Q3	+10.7	+11.1	112.0	108.6	1.66	1.62	2.39	1.48	1.25	na
United States	−438.9 Oct	−430.7 Q3	− 4.1	− 4.0	122.8	113.4	–	–	1.44	0.89	0.75	0.6
Euro area	+ 24.9 Oct	− 31.2 Oct	+ 0.2	− 0.1	79.0	81.0	1.13	1.06	1.62	–	0.85	-1.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 13.0 Oct	+ 8.4 Oct	na	na	78.3	78.2	6.69	6.32	9.63	5.95	5.05	3.7
Greece	− 7.3 Sep	− 7.2 Sep	na	na	57.5	57.6	383	362	552	341	289	0.2
Iceland	− 0.2 Nov	− 0.7 Q3	na	na	na	na	102	84.6	147	90.6	77.0	-0.2
Ireland	+ 31.8 Oct	− 1.5 Q2	na	na	87.4	88.3	0.89	0.84	1.28	0.79	0.67	3.2
Luxembourg	− 2.8 Sep	+ 1.2 Q2	na	na	99.1	99.4	45.4	42.9	65.4	40.3	34.3	5.3
New Zealand	+ 0.4 Nov	− 0.2 Q3	na	na	83.4	81.3	2.33	2.24	3.36	2.07	1.76	1.3
Norway	+ 25.8 Nov	+ 26.1 Sep	na	na	96.6	93.4	8.94	8.71	12.9	7.94	6.74	14.3
Portugal	− 12.9 Sep	− 10.5 Sep	na	na	89.3	89.6	226	213	325	200	170	-1.7

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate.

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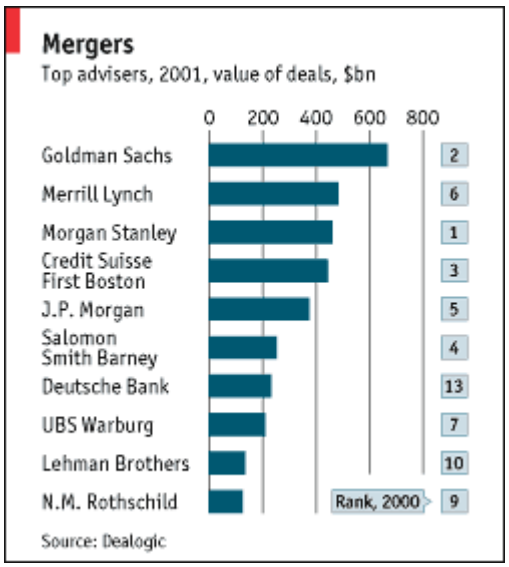
Mergers

Jan 10th 2002
From The Economist print edition

Get article background

Worldwide mergers and acquisitions fell to $1.9 trillion, measured by deal value, in 2001, down by 45% from 2000, as a slowing global economy cooled demand for new deals.



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Overview

Jan 10th 2002
From The Economist print edition

Argentina at last gave up its decade-old policy of fixing the peso rigidly at one-to-one against the dollar. A confusing dual exchange-rate system took its place. For exports, some imports and most capital transactions the peso will be officially pegged at 1.4 to the dollar. For all other transactions the currency will float. This dual system is supposed to last four or five months, after which the peso will be fully floating.

Taiwan, like Argentina, is suffering from deflation: in the 12 months to December, consumer prices fell by 1.7%, and wholesale prices by 5.2%. Over the same period, consumer-price inflation in the **Philippines** slowed to 3.9%, an 18-month low, boosting expectations of more interest-rate cuts.

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Central bank staff

Jan 10th 2002
From The Economist print edition

The European Central Bank, plus the central banks of the euro area's 12 member countries, had a combined 56,000 employees in 2001, or 18.3 central bankers per 100,000 people, compared with 8.3 in the United States. Britain's sleek Bank of England gets by with only 3.9 employees per 100,000 citizens. In absolute terms, China has the most central bankers, some 150,000, followed by Russia with 81,000. The euro area comes third. The Cayman Islands' central bank, though huge in relation to population, has a mere 87 staff.

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Economy

Jan 10th 2002
From The Economist print edition

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 7.0	Q3	+ 7.9	Nov	– 0.3	Nov	+20.9	Nov	+20.5	2000	206.5	Oct
Hong Kong	– 0.3	Q3	– 7.1	Q3	– 1.4	Nov	–11.9	Nov	+ 8.8	Q3	111.2	Dec
India	+ 5.3	Q3	+ 1.9	Oct	+ 4.9	Nov	– 5.7	Nov	– 0.7	Q3	45.2	Dec
Indonesia	+ 3.5	Q3	+ 3.2	Q2	+12.6	Dec	+25.4	Nov	+ 4.0	Q3	27.3	Nov
Malaysia	– 1.3	Q3	– 4.4	Nov	+ 1.5	Nov	+14.5	Nov	+ 7.5	Q2	29.8	Oct
Philippines	+ 2.9	Q3	– 0.2	Oct	+ 3.9	Dec	+ 3.4	Oct	+ 5.1	Sep	12.2	Oct
Singapore	– 7.0	Q4	–13.6	Nov	– 0.2	Nov	+ 4.5	Nov	+22.1	Q3	75.8	Dec
South Korea	+ 1.8	Q3	+ 4.9	Nov	+ 3.2	Dec	+ 9.5	Dec	+ 9.9	Nov	101.6	Nov
Taiwan	– 4.2	Q3	– 6.8	Nov	– 1.7	Dec	+15.7	Dec	+16.2	Q3	122.2	Dec
Thailand	+ 1.5	Q3	+ 0.1	Nov	+ 0.8	Dec	+ 2.3	Nov	+ 6.1	Nov	32.6	Nov
Argentina	– 4.9	Q3	–10.4	Nov	– 1.5	Dec	+ 5.6	Nov	– 8.4	Q2	18.1	Oct
Brazil	+ 0.3	Q3	– 3.4	Oct	+ 9.2	Nov	+ 1.6	Nov	–22.4	Nov	37.2	Nov
Chile	+ 2.6	Q3	+ 4.9	Oct	+ 2.7	Dec	+ 1.6	Nov	– 1.7	Q3	14.2	Nov
Colombia	+ 1.0	Q3	– 1.1	Oct	+ 7.7	Dec	+ 0.7	Oct	– 0.7	Q2	10.3	Dec
Mexico	– 1.6	Q3	– 4.3	Oct	+ 5.4	Nov	– 9.9	Nov	–16.6	Q3	43.4	Oct
Peru	+ 1.7	Nov	+ 2.6	Oct	– 0.1	Dec	– 0.3	Oct	– 1.4	Q3	8.8	Oct
Venezuela	+ 2.8	Q3	+ 3.2	Aug	+12.7	Nov	+13.7	Q3	+ 4.4	Q4	9.4	Nov
Egypt	+ 6.5	2000†	+ 9.4	2000†	+ 2.3	Oct	– 8.8	Jul	nil	Q3	13.8	Sep
Israel	– 2.7	Q3	– 7.3	Oct	+ 1.4	Nov	– 6.9	Nov	– 3.6	Q3	22.9	Dec
South Africa	+ 0.1	Q3	+ 4.1	Nov	+ 4.3	Nov	+ 4.8	Nov	+ 0.3	Q3	6.1	Nov
Turkey	– 7.1	Q3	–13.9	Nov	+68.5	Dec	–13.4	Oct	– 0.4	Sep	19.0	Oct
Czech Republic	+ 3.2	Q3	+ 4.1	Oct	+ 4.1	Dec	– 3.1	Nov	– 2.6	Q3	14.3	Dec
Hungary	+ 3.7	Q3	– 0.4	Nov	+ 7.1	Nov	– 1.8	Nov	– 0.8	Nov	11.2	Nov
Poland	+ 0.8	Q3	– 0.8	Nov	+ 3.6	Nov	–11.8	Nov	– 7.2	Nov	25.2	Nov
Russia	+ 4.9	Q3	+ 4.7	Nov	+18.6	Dec	+51.8	Nov	+41.5	Q3	33.3	Nov
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	+ 5.0	Jul	+ 2.7	Nov	– 1.1	Oct	+ 0.3	2001†	2.4	Oct
Saudi Arabia	+ 4.5	2000§	na		– 0.3	Oct	+50.9	2000	+15.6	2000	17.1	Oct

*Excluding gold, except Singapore; IMF definition. †Year ending June. § Economist Intelligence Unit estimate.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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